



370
6

GOVERNMENT COLLEGE
ECONOMIC JOURNAL

Vol. VII	January—December 1974	No. 1&2
----------	-----------------------	---------

- ▶ FEDERAL BUDGET 1974-75 —AN APPRAISAL ... 1
—*Khawaja Amjad Saeed*
- ▶ INFLATION IN PAKISTAN (1960-1973) ... 35
—*Arif Ayub*
- ▶ INFLATION—A CRITIQUE OF PREVAILING EXPLANATIONS ... 53
—*Izzat Majeed*
- ▶ THE DEVALUATION OF PAKISTANI RUPEE 1955—AN ANALYTICAL ASSESSMENT ... 63
—*Dr. Muhammad Moqueem Sheikh*

ECONOMIC
1974
05

A Research Council Publication

GOVERNMENT COLLEGE LAHORE - PAKISTAN

Sr. No. 6

Editor : A. S. KHALID

Joint Editor : H. Y. DAR

GOVERNMENT COLLEGE
ECONOMIC JOURNAL

is produced half yearly during January—June and July—December by the Department of Economics, Government College, Lahore. The views expressed are the personal responsibility of the authors and the Department accepts no responsibility for them. Correspondence relating to contributions and style instructions should be addressed to the Editor and that relating to business matters to the Manager. Contributors should give prior notice in case reprints are required.

Subscription Rates
(For 2 issues)

Pakistan : Rs. 15.00

Foreign : \$ 4.00

Composed by : Hafeez & Bros. 23, Lal Chand Street, Aibak Road, Lahore.

Printed by : University Tutorial Printing Press, Aibak Road, Anarkali, Lahore, and,
Published by : Mr. Khurshid Ahmad, Manager, Economic Journal, Government College Lahore.

Federal Budget : 1974-75 - An Appraisal*

Khawaja Amjad Saeed**

Introduction :

A developing country needs resources for not only meeting the revenue expenditure (financing defence services, paying amount for debt services, maintaining civil administration etc.) but also for financing her development plan for accomplishing the objective of advancing the socio-economic welfare of her community. An attempt has been made in this paper to critically review the taxation aspects of resource mobilisation efforts. A brief review of internal and external resources has also been incorporated in this paper. The information given in the enclosed Tables has been extracted from Budget Documents, Annual Finance Ordinance/Acts and other documents issued by the Government of Pakistan. Sources have been quoted at the relevant places. All rates of taxes relating to various heads have been taken from the respective Annual Finance Acts passed by the National Assembly.

Meaningful information which would have been useful for developing thoughts to further the cause of resource mobilization is not available. We hope that Government will, in the spirit of informative disclosure, give this area a serious thought and publish upto-date information in this respect.

Economic Background

GDP in Pakistan has been steadily increasing (See Table 1 for GDP growth trend since 1959-60 to date). During 1973-74 overall growth of agriculture was 5% and in major crops 8%. Overall growth

*This paper was presented in a Seminar sponsored by the Ministry of Finance, Planning and Development, Government of Pakistan.

**Chairman, Department of Business Administration, University of the Punjab, Lahore.

of 7% took place in industry. Major contributing factor in this respect was better utilization of capacity. GNP was estimated to show a growth of 6.1% in the year 1972-73 but actually turned out to be 7.6%. The estimated growth of GNP for 1973-74 is between 7% and 8%. Our actual population growth is estimated at 3.5% and the balance of payment shows a deficit of \$ 155 million. Although there has been steady increase in our exports, money spent for imports is comparatively greater. The foregoing is the overall economic picture of our country.

Constitutional Position viz-a-viz Resources

Our 1973 Constitution is the mother of all laws of our country. In it is given a complete list of the taxes and duties in respect of which the Federal Government has exclusive powers to make laws (Table 2). Every Federal Finance Minister has to keep in careful consideration entries No.43 to 54 given in the Fourth Table, Legislative List, Para 1, annexed to the above constitution. It is highly essential that an amendment in Entry No.47 be made by the National Assembly of our country to score out words "47..... other than agricultural income". This will thus enable the Federal Government to assume power of taxing the agricultural income whenever this decision is made. Thus it will be instrumental for mobilising more resources at the Federal level.

Historical Retrospect viz-a-viz Resources

Table 3 has been prepared by us indicating the trend of gross revenue collection since the inception of our country. A study of this table will present an analytical position of the major avenues of resources. This table is presented as a background information. Table 4 shows the changes in the position of important components of tax receipts. It will be seen from the above table that major emphasis for the collection of revenue in Pakistan is on custom and excise duties. Income tax and sales tax constituted 43% of the total tax receipt in the year 1957—58 and the corresponding percentage for the year 1974—75 is only 21%. On the other hand, custom and excise duties constituted 53% of the total tax revenue 1957—58 and its corresponding ratio is now 81%. Thus it can be seen that with the passage of time there has been a significant shift towards the collection of tax from custom and excise duties rather than income tax and sales tax.

Incidence of Taxes

By and large every developing country is trying her best to increase the ratio of direct taxes as compared to indirect taxes. Available statistics in this respect show that the ratio of direct and indirect taxes in Sri Lanka, India and Iran is 22.78, 23.77, 22.78 respectively. During 1973—74, the ratio of direct and indirect taxes in Pakistan was 18 and 82 respectively. In the current budget this ratio has now become 11 and 89 respectively. One school of thought strongly continues to believe that in order to build a strong middle class, it is imperative to increase the ratio of direct taxes and steadily reduce the ratio of indirect tax. A serious exercise is needed to be done in this respect to devise ways and means to accomplish this goal.

There is a second school of thought in Pakistan which believes that our continued reliance on indirect taxes shows the strength of built-in safe guard in the Pakistan tax structure against a fall in GDP Tax ratio due to rise in price level. 1

Role of Provinces

It is very surprising to note that no province has her savings to share the cost of development efforts. Invariably the Federal Government has been financing major portions of various provincial budgets. The dire need of the hour is that each province must also examine her revenue generating system and initiate steps for discovering avenues which have remained untapped from the viewpoint of revenue collection, to meet her development need.

Revenue Budget : 1974—75

An abridged position of the revenue budget for the year 1974—75 with comparative figures of previous two years, is given on Table 5. Compared to Rs. 583 crore representing tax receipts for the year 1973—74, it is estimated that a sum of Rs. 1072 crore will represent the collection from tax receipts for the year 1974—75. A detailed

1. Please refer to UBL Monthly Economic Letter, June 1974: *The Federal Budget of Pakistan, 1973-75*. Evaluation by Dr. Mahfooz Ali, Research Economist of UBL,

critical review of the available tax resources together with suggestions for improving the position of resources is given below :

(1) *Custom Duties* : It is estimated that an additional sum of Rs.298 crore, as computed below, will be collected from the custom duties :

<i>(Rupees in crores)</i>					
Amount for 1974—75 budget	594				
Amount per revised budget :					
1973—74	391				
Less : Reduction of amount on account of concessions and reduction of export duty.	<table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="text-align: right; border-bottom: 1px solid black;">95</td> <td style="text-align: right; border-bottom: 1px solid black;">296</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">298</td> </tr> </table>	95	296		298
95	296				
	298				

The ratio of custom duty to total tax receipts has undergone material change (1973—74, 44%, 1974—75, 54%). The break down of 594 crore represents the estimated receipts from custom duties in the current budget as given on Table 6. Export duties constitute 56% of the total custom duties and the corresponding ratio of import duty is 44%.

Despite reduction in export duty resulting in a loss of Rs. 94.50 crore to the exchequer, it is estimated that as against a sum of Rs.391 crores representing custom duties for the year 1973—74, a sum of Rs. 594 crore in the current budget will hopefully be collected. The break down of amount in respect of import duty and export duty together with the comparative figures are indicated on Table 6. It would be seen from this Table that heavy reliance has been placed in respect of collection of export duty from cotton yarn (Rs. 116 crores) and raw cotton (Rs. 108 crores). It is indeed doubtful that such a heavy amount will be collected because of the following reasons :

- (a) The prices of cotton yarn and raw cotton are declining in the international market. Recent announcement by the Finance Minister to be associated in the profit/loss to textile industry is an added evidence in this respect that serious difficulties are being experienced by Pakistan relating to export of cotton.
- (b) On account of bumper crops in Korea and Taiwan, huge quantities of cotton and cotton yarn have been dumped in

Hong Kong market. Consequently, we are facing great difficulties in meeting our export target.

- (c) Presently around 33 lac spindles stand installed in Pakistan and on an average the consumption for one spindle is one bail of cotton. Therefore, at least 33 lac bails of cotton will be needed to be locally processed. Presently we have fixed the target of 45 lac bales of cotton for the year 1974—75. A very concerted effort is needed to meet this target, failing which our entire budgetary exercise may seriously be hampered and will give a serious jolt to the efforts of resource mobilization.

Undue and high reliance on taxation to be realised on foreign trade makes the growth of tax revenue of our country rather uncertain and dependent upon the fluctuating positions in the international market.

In view of the foregoing considerations, very hard work is needed in the field and industry to meet the coveted target so that the goal of collection of 334 crores as export duty is achieved.

(2) **Excise Duty** It is estimated that an additional sum of Rs. 24 crore will be collected during 1974—75 under the above head. An additional sum of Rs. 32 crore was collected in the year 1973—74 as compared to the figures of the year 1972—73.

Reasons for increase in 1973—74 figures over the corresponding figures for 1972—73 are :

- (a) Imposition of Flood Relief surcharge on sugar and cigarettes.
- (b) Enhancement in the rates of excise duty on vegetable products.
- (c) Larger clearance for home consumption.
- (d) Increase in the production of man-made yarn.

Presently, production capacity items of excise duty are sugar, cotton fabrics and yarn, cement, and soda ash (Table 7). There is a need to extend the coverage of items on production capacity basis. It is hoped that if serious consideration to this issue is given, more resources may be available to the Government at comparatively lesser cost of collection of excise duty.

(3) **Tax on income** : The amount of tax on income is exactly the same as per last year (Table 8). The following points are worth examining :

- (a) **Tax Slab** : Last year if an individual's taxable income was Rs. 50,000, he was required to pay 70% as income-tax. It

is quite obvious that very few people were willing to contribute productively in terms of work with the above unhappy situation. This position did not provide motivation for the individual to do maximum work. (See Table 9 for rates of income tax covering assessment year 1973—74). However, tax slabs were changed and the Finance Act, 1974 provided 14 slabs (Table 10). The maximum 70% rate is now applicable to income bracket of over Rs. 1 lac. There is still a need to have a fresh look at the new taxation slab. In our opinion it should be restructured in such a manner that 70% tax slab should be applicable to such individuals whose taxable income is at least over Rs. 4 lac. On the face of it, it may result into the revenue loss to the State. In fact it would raise more revenues as greater amount of taxable income, we hope, would be available on account of expected more productive work to be contributed by assesseees.

- (b) **Exemption Limit :** In the current budget, the tax exemption limit of Rs. 9,000 has been raised to be Rs. 12,000. It is interesting to note that in the current budget India raised the above limit from Rs. 5,000 to Rs. 6,000. Thus, in Pakistan the exemption limit is fairly high resulting into low coverage of assesseees. Unfortunately the number of assesseees who pay income-tax is negligible as compared to its population. Based on the report published in the Pakistan Economist of August, 11-17, 1973, the following figures were available for year 1968—69 :

<i>Income Tax</i>	<i>No. of Assesseees</i>
Over Rs. 2,00,000	502
.. Rs. 1,00,000	9,105
.. Rs. 75,000	1,838
.. Rs. 50,000	3,426

Unfortunately, the current data in respect of number of assessee is not available. It is surprising to note that the Government has published this information only upto 1963—64 in the book "25 Years Statistics of Pakistan" released last year. It is interesting to note that this book was published in the year 1972 and pertinent information after 1963—64 relating to the break down of the assesseees under various categories etc..... was not published. Thus a researcher is

handicapped to persue his work due to non-availability of information. The Government must compile the data, analyse it and publish it for the study of the researchers and others who would use it for developing new ideas for resource mobilization. We suggest that income-tax as given below should be collected with a spirit of broadening the base of assesseees in Pakistan :

<i>Individual's Income</i>	Income—Tax
	Rs.
Upto Rs. 4,800 P.A.	48/- P.A.
From Rs. 4,801 to 7,200 P.A.	72/- P.A.
„ Rs. 7,201 to 9,600 P.A.	96/- P.A.
„ Rs. 9,601 to 12,000 P.A.	120/- P.A.

On the assumption that 15 lacs people fall in the above category and the amount of the income tax to be paid is Rs. 84 per annum per individual, a sum of Rs. 12.60 crores can be collected if this suggestion is implemented.

This individually small contribution by the low income group is bound to create healthy outlook in their mind that they are also taxpayers and secondly this will also be instrumental in creating a sense of effective participation towards the noble cause of contributing something to the national exchequer. If this suggestion is not acceptable, tax can be collected from the respective industries and commercial houses from where employees draw the above salaries/wages.

(c) *Taxation of Partnership Operations* : It is widely held that the grant of registration to partnership firms under Income Tax Act, 1922 encourages taxpayers to avoid proper tax liability by falsely increasing the number of partners and establishing fictitious firms. These aspects were dealt with at length by the Federal Finance Minister while announcing the budget proposals for the year 1972—73.

Through the Finance Ordinance, 1972, Section 26-A of the Income Tax Act, 1922 was deleted and partnership firms were to be visualised to result in the collection of rupees four crore. Due to strong public protest, the earlier position was restored through Finance (Second Supplementary) Ordinance, 1972. But it came as a surprise that no other amendments were made whereby the above amount could be collected while permitting the registration of firms to continue under the Income Tax Act, 1922.

Based on the recent provision of the Finance Act, 1974, no renewal application is required for an existing firm which was once granted registration unless its constitution changes. In our opinion, the capacity to pay tax exists in this area and we offer the following suggestions :

- (i) A sum of Rs. 500 should be charged as registration fee before a firm is granted registration under Section 26-A of the Income Tax Act, 1922. Assuming that yearly number of firms seeking registration under the Act is 5,000, a sum of Rs. 25 lac would be collected without incurring any expenditure.
- (ii) No renewal fee is charged while granting renewal of registration firms under the Act. Renewal fee at the rate of Rs. 100 per partner should be charged at the time of granting renewal of registration to firm. On the assumption that there are 50,000 registered firms in Pakistan seeking renewal of registration every year and average number of partners in each firm is 8, this step will raise revenues of Rs. 4 crore without incurring any expenditure.

The present position of "No renewal application-No fee" be changed, and it should be made obligatory for every firm to have its registration renewed annually.

- (iii) There is need to raise reasonable amount of super-tax from firms which are presently exempt under the First proviso to Section 55. The levy should be imposed to result in at least a collection of Rs. 25 lac.
- (d) *Taxes on Corporate Sector* : In Pakistan corporate sector is already heavily taxed. Infact the same profits of a company are taxed many times such as :
 - (i) Firstly, as profit of the company. (For rates, please see Table 11)
 - (ii) Secondly, as Bonus share of the company, if distributed by the company. (For rates please see above Table)
 - (iii) Thirdly, in the hands of shareholders as dividend. It is generally known that in UK and USA, rate of taxes is 40%-45%, whereas in Pakistan it is an average of 66%. In our opinion, possibility of raising taxes do not exist in this area.

(evasion of taxes excepted). This sector has recently contributed considerably when tax holiday was abolished. Moreover, it is expected that the contribution of tax will be comparatively greater now than in the past.

It is suggested that the distinction between income-tax and super-tax should be abolished. Instead one consolidated rate should be adopted.

There is a tendency to reduce the taxable profits by inflating the revenue expenditure. This approach typically exists in the sub-continent and had motivated Professor Kaldor to recommend expenditure tax of 10% on the total expenditure of the companies in India. However, in order to streamline the present position and enable the State to collect more taxes from the corporate sector, it is advisable that the system should be changed in such a manner that tax should be levied on gross income from whatever source it has originated. It should be calculated at a flat rate before deduction of any expenditure (depreciation and other direct taxes-sales tax and excise duty excepted). Serious consideration may be given to this suggestion for implementation. Research work is required to be initiated in this respect.

(e) **Tax Evasion** : For making income tax officers proficient in their work, it is advisable that they must specialise in particular trades. Tradewise jurisdictions be given to them in company and non-company circles. It is high time that Central Board of Revenue examined this issue and called upon the commissioners of income-tax in Pakistan to follow this suggestion.

Rules should also be made whereby the transactions above a prescribed limit (say Rs. 6,000) would not be recognised by the Income Tax Department as valid, unless the second party to the transaction holds a GIR (General Index Register) number and this number is shown on the invoice. This will enable the Tax Department to uncover fictitious parties and also establish check on the part of those who have been evading tax. They will be motivated to obtain GIR Number and contribute something sizeable to the coffers of the State.

Every Income Tax Officer, at the time of his employment, should file a wealth statement as required under Section 22 (4A) of the Income

Tax Act, 1922. This statement should also be obtained at regular intervals of say 3 years to note the trend of the growth of his family's assets etc.

It is very imperative that the Income Tax Officer must show by his conduct that he is not a taxgrabber but is a referee standing between the State on the one hand and taxpayer on the other hand with sole idea that both get a square deal. If an Income Tax Officer is regular in attendance, prompt in listening to grievances, however, frivolous in the manner of a skillful salesman, he will immediately find encouraging response from the taxpayer and thus may be in a position to contribute productively to the cause of greater revenue to the State.

(f) **Surveys :** For the last two to three years, the work of survey by the inspectors of income-tax has been activated. Inspectors continue to visit various shops and commercial buildings with the sole objective of discovering new assesses. Unfortunately junior staff is assigned to do this work and consequently they are unable to handle the job properly.

It is suggested that survey work should be organized on sound footing under the supervision of a commissioner of Income-tax. This is bound to bring a large number of businessmen into the fold of income-tax and revenues will almost certainly increase steadily.

(4) **Sales Tax :** Comparative figures for the previous two years including the figures of current budget are given on Table 8. There is a need to review critically the collection of sale tax on excisable and non-excisable items. After a thorough examination and scrutiny, the list of items may be increased and brought within the ambit of sales tax.

(5) **Wealth Tax :** Following recommendations of the Taxation Inquiry Committee which submitted its report in June 1950, Wealth Tax Act was enacted in the year 1963 with the basic objective of removing and preventing the concentration of income and wealth in Pakistan. In the current budget a sum of Rs. 4 crore is expected to be collected under this head. Table 12 indicates the trends of collection from 1969—70 to to-date. Table 13 indicates the wealth tax rates which are claimed to be the highest in the world. In our opinion, the enactment of Wealth Tax Act, 1963 was merely an eye-wash and was never meant to accomplish the objective for which it was enacted.

It is quite obvious that the collection of a sum of Rs. 4 crore cannot remove and prevent in any great measure the concentration of wealth in Pakistan. While it is not advisable to increase the wealth tax rates, which are already the highest in the world, it is highly advisable that the list of the exemptions (so liberally prepared) should be carefully scrutinized and suitably reduced. This will, almost certainly result in mobilising more resources to the exchequer.

(6) **Gift Tax** : The above noted Taxation Inquiry Committee had recommended that gift tax should not be introduced in Pakistan due to these two reasons :

- (a) Difficulties in administration of the Act and
- (b) Low potential revenue income.

However Gift Tax Act was enacted in 1963 (see Table 8 for Gift Tax rate). Table 12 shows the trend of collection of Gift Tax from 1971—72 to date. It would be seen that a very small amount is collected (current budget 75 lacs). Perhaps it is worth examining whether this Act should be continued or not.

(7) **Estate Duty** : Table 12 indicates the trend of collections for the last several years. Rates of estate duty are given on Table 14. There are 16 slabs given in the rates of Estate Duty but unfortunately the collection is very small (Current Budget : 62 lacs). To collect more taxes under this head, list of exemptions is worth examining and should be suitably amended to ensure higher collection of amount. It is widely believed that year after year considerable evasion of estate duty takes place in Pakistan. Some persons should be deputed to keep constant information of deaths of wealthy persons in major cities and important rural areas.

Rewards To Informers

The Government of Pakistan has been considering the suggestion made from different quarters that the system of giving rewards to the informers be used in order to evolve an effective check on the evasion of taxes in Pakistan. The virtues or otherwise of the system are quite debatable but it is generally agreed that unless the information is valid and complete in all respects, useful purpose may not be achieved. For detection of evasion of taxes, the following amounts

have been provided in the Federal Budgets relating to rewards to informers.

Reward for Detecting the Evasion of Taxes

Year	Income Tax	Estate Duty
	Rs.	Rs.
1973-74 B	8,00,000	—
1973-75 RB	2,11,200	50,000
1974-75 B	4,30,000	50,000

Some people are of the opinion that the introduction of the system of rewards to informers results in corrupting the already corrupt society. Out of revenge and for blackmail, this system may be persued by many people.

In view of above figures, it appears that the full amount of Rs. 8 lac has not been utilized and in the current budget a sum equal to one half of the 1973—74 budget has been provided.

Agricultural Tax

Presently, a controversy is going on in our country wheter or not agricultural sector should be subjected to income-tax in the same manner as non-agricultural income. Opinions are dividend on this issue. The antagonists, supported mainly by some economists of the Planning Commission, preach that time has not yet come for making a decision in favour of introducing tax on agricultural income. Two basic arguments are advanced in this respect. Firstly, it would result in disincentive for the farmer and secondly, correct relevant, data of the agricultural sector is not yet available. These arguments should not be accepted to postpone the decision indefinitely but work must be initiated in this respect to collect all the available information. According to an estimate, an additional income of Rs. 700 crore was generated in the agricultural sector following devaluation and green revolution. Therefore, there is an imperative need that our tax structure should be changed to bringing the agricultural income within the ambit of Federal Income-tax. In the current budget, due

For other details, please refer to para 3-4 of article entitled : The Federal Budget of Pakistan 1974-75. Evaluation by Dr. Mahfooz Ali, Published in the UBL Monthly Economic Letter June, 1974.

attention has been given to the agricultural sector budgetary allocation for Tarbela Dam, control of water and salinity, sinking of tubewells, raising the procurement prices of sugar, wheat, cotton, etc. All these facilities are bound to strengthen the agricultural sector and therefore a start should be made for extending the scope of income tax to the agricultural income.

We are in complete agreement with the recommendations of Taxation Inquiry Committee Report (recommendations No. 55.60, p. 312, Table 15).

Approach To Encouragement of Savings

Various tax incentives exist for the encouragement and development of savings under the Income-tax Act, 1922. However, in the current budget, the emphasis has been laid more on the higher rates of interest for encouraging savings in Pakistan rather than providing tax incentives. The redeeming features announced by the Government for encouraging savings in the current budget are: Interest on Defence Saving Certificates has been increased by 2%; for investment of money, the ceiling has been raised to the sum of Rs. 1 lac for purchase of Defence Certificates, and Seven Years Deposit Account. The maximum ceiling for purchase of Three Years Khas Defence Certificates has been raised to Rs. 75,000. It is surprising to note that the existing limit of investment allowance (30% to total income or Rs. 20,000 whichever is the lower) has not been increased. There was a good reason to increase this limit in order to mobilise internal savings.

Another interesting feature of the current budget is an emphasis on the growth of voluntary savings.

In Sri Lanka and India, several laws have been enacted for compulsory savings by the salaried class, wage-earner and by companies.

However, there is a need to further boost the savings by following these suggestions:

- (1) The number of saving institutions should be increased considerably.
- (2) These should be located in such a manner that they be accessible to those who would like to save and invest money.
- (3) Rate of interest be increased.

Self Reliance

We have over-talked the concept of self-reliance in Pakistan. Self-reliance cannot be achieved overnight. It can at best stay as a

long-term, hopeful goal. However, efforts are needed to generate steadily enough resources in Pakistan to finance our development projects and to meet the cost of operating the Government. It is, however, heartening to note that the present budget indicates positive steps towards the greater emphasis on utilisation of internal resources for meeting the developmental needs of our country as compared to the earlier year. (1973-74; internal resources were 25% and in the current budget this ratio is 37%). More vigorous efforts are needed to discover the ways and means for increasing the internal resources. Research studies should be initiated in this respect.

Resource Availability and the Arab World

The Muslims were obviously pleased with the success of Islamic Summit held in April, 1974 at Lahore. Several research papers were produced relating to the socio-economic conditions of muslim countries. On the above occasion, it was revealed that Arabs were quite keen to channel their resources for investment in various muslim developing countries. It is high time that our country should avail itself of this opportunity to the best advantage. Unfortunately a great hinderance in this respect is high rate of income-tax and super-tax on corporate profits. (Generally 60 per cent) Our Governmnet must seriously examine this issue and should charge lower rate of income-tax and super-tax on profits of companies to be floated with participation from Arab World. This will attract mobilization of sizeable quantum of resources from oil rich Arab countries to Pakistan.

Pakistan Development Budget, 1974—75 : Resonrce Availability

Table 15 indicates total development expenditure together with financing patterns since our inception. We have presented an analysis of resources under three headings, the internal resources, external resources and use of cash balances. No developing country in the world can have so much internal resources as can match her development expenditure and consequently Pakistan, with no exception in this respect, has also been depending to a larger extent on the external resources for meeting the challenging task of financing her development needs.

Pertinent details relating to sources of financing the 1974—75 ADP in respect of major development heads for three years are given on Table 16. An analysis of this Table guides us to conclude the following :

Last year we relied to the extent of 75% on external resources for financing our ADP. This year this ratio is 63%. Therefore,

there is a significant increase in our internal resources for financing 1974—75 ADP (1973—74 ADP : 25%. 1974—75 ADP : 37%). These statistics indicate healthy sign of our potential to raise resources to finance our ever-growing development needs.

The 'modus operandi' needed to be followed for generating more internal resources constitutes a topic in itself on which the Federal Government may initiate the needed research. Therefore, this aspect of discussion has been excluded from discussion in this paper.

However, we would like to present a review of the external resources to Pakistan. A sum of Rs. 557 crore represent external resources to finance our current ADP of Rs. 850 crore.

An abridged summary of estimates of foreign loans is given on Table 17. The lending countries/agencies are : (a) U.S.A. Canada, (b) Asia : Japan and China (recently there was an announcement of considerable foreign assistance to be given by Iran), (c) Europe : Germany, USSR, Switzerland, Italy, Yugoslavia, Denmark, France, Czechoslovakia, U.K., Austria, Belgium, Netherland and Romania, (d) Agencies : IDA; IBRD; ADB; IFC and EXIM Bank. After carefully scrutinising the above mentioned Table, it is clear that foreign assistance actually is for those items which are not manufactured in Pakistan and consequently there is no alternative available except to procure the foreign assistance for the development of agriculture, industry and infrastructure (commodity loans excepted). The study of this Table should refute all arguments saying that we should immediately stop using foreign loans for the development of our economy. In fact if we honestly wish to see Pakistan economically well-developed, there is no choice except to continue our efforts to utilize effectively the foreign assistance, but ensure that our internal resources for financing need of our country keep on steadily increasing.

Concluding Remarks

Scarcity of resources is a perennial problem. This can at best be adequately tackled after following the steps noted below :

- (a) Production, - constant increase,
 - (b) Increase in exports,
 - (c) Accelerating the pace of investments in the various economic sectors.
-

TABLE 1

PAKISTAN GROSS DOMESTIC PRODUCT

GDP GROWTH TREND.

(Rs. in crores)

Year	At constant Factor cost 1959-60	At current Factor Cost
1959-60	1,598	1,598
1960-61	1,677	1,741
1961-62	1,781	1,817
1962-63	1,912	1,950
1963-64	2,034	2,186
1964-65	2,201	2,469
1965-66	2,309	2,661
1966-67	2,407	3,033
1967-68	2,591	3,330
1968-69	2,758	3,551
1969-70	3,230	4,330
1970-71	3,233	4,555
1971-72	3,263	4,888
1972-73	3,500	6,048
1973-74	3,717	7,738

SOURCE: *Pakistan Economic Survey, 1973-74*, published by the Government of Pakistan, Finance Division, Economic Adviser's Wing, Islamabad, pp. 9-10, 1974.

TABLE 2

TAXES AND DUTIES IN RESPECT, OF WHICH THE FEDERAL GOVERNMENT HAS EXECUTIVE POWER TO MAKE LAWS

Entry No.	Particulars
43	Duties of customs, including export duties.
44	Duties of excise, including duties on salt, but not including on alcoholic liquors, opium and other narcotics.
45	Duties in respect of succession to property.
46	Estate duty in respect of property.
47	Taxes on income other than agricultural income.
48	Taxes on corporations.
49	Taxes on sales and purchases.
50	Taxes on the capital value of the assets; not including taxes on capital gains on immovable property.
51	Taxes on mineral oil, natural gas and minerals for use in generation of nuclear energy.
52	Taxes and duties on the production capacity of any plant, machinery, undertaking, establishment or installation in lieu of the taxes and duties specified in entries 44, 47, 48, and 49, or in lieu of any one or more of them.
53	Terminal taxes on goods or passengers carried by railway sea or air; taxes on their fares and freights.
54	Fees in respect of any of the matters in this part, but not including fees taken in any court.

SOURCE : *Constitution of the Islamic Republic of Pakistan, 1973, Fourth Schedule Legislative Lists, Federal Legislative List Part I, Entries No. 43-54.*

TABLE 3

PAKISTAN CENTRAL BUDGETS
PAKISTAN GROSS REVENUE RECEIPTS AND
GROSS REVENUE EXPENDITURE

(Rs. in crore)

Total Gross Revenue Expendi- ture	Year	Customs	Central Excise Duty	Tax on Income	Sales Tax	Other Taxes	Non Tax Re- ceipts	Total Gross Reve- nue Rece- ipts
23	1947-48	11	1	3	—	1	4	20
65	1948-49	33	5	7	8	1	13	67
86	1949-50	42	5	12	11	2	17	89
127	1950-51	78	7	13	9	2	18	127
144	1951-52	82	7	17	15	6	17	144
132	1952-53	66	7	18	15	6	21	133
111	1953-54	36	13	18	11	4	29	111
117	1954-55	42	12	19	13	5	26	117
143	1955-56	56	14	21	16	4	33	144
133	1956-57	47	14	21	15	4	33	134
152	1957-58	42	19	24	14	5	48	152
196	1958-59	49	26	40	17	6	58	196
185	1959-60	56	29	32	17	6	58	198
189	1960-61	59	34	32	25	7	55	212
199	1961-62	67	37	39	26	4	58	231
180	1962-63	74	41	28	24	1	37	205
234	1963-64	70	61	31	26	—	95	283
274	1964-65	103	70	34	27	7	89	330
450	1965-66	105	82	28	35	5	125	380
377	1966-67	125	127	33	66	6	121	448
408	1967-68	127	156	27	23	4	133	470
437	1968-69	169	177	32	36	6	157	577
511	1969-70	168	219	48	39	6	187	667
575	1970-71	174	210	22	16	2	178	602
630	1971-72	129	195	83	22	3	173	606
765	1972-73	246	207	70	27	3	202	755
887	1973-74	336	216	70	32	4	237	895

TABLE 4
CENTRAL GOVERNMENT RECEIPTS

Particulars	1957-58	1968-69	1974-75
	%	%	%
Customs	35	26	54
Central Excise	18	41	27
Income Tax	22	18	14
Sales Tax	21	14	7
Others	4	3	(2)
	-----	-----	-----
	100	100	100
	-----	-----	-----
Budget estimates Rs. in crores	130	551	1,388

Note : Figures for 1957-58 and 1968-69 relate to undivided Pakistan. Figures for 1974-75 relate to Pakistan (earlier known as West Pakistan before the break away of East Pakistan, now called Bangla Desh).

TABLE 5

PAKISTAN FEDERAL BUDGETS

Revenue Budgets

(Rs. in crores)

Particulars	1972-73	1973-74	1974-75		
A. Revenue Receipts					
(i) Tax Receipts :					
		%	%		
Custom duties	264	391	44	594	54
Excise duties	225	276	31	300	27
Taxes on Income	105	115	13	115	14
Sales Tax	43	65	8	70	7
Other Taxes	24	36	4	(7)	(2)
	661	883	100	1,072	100
(ii) Non-Tax Receipts					
	181	270		316	
Total Revenue Receipts :					
	842	1,153		1,388	
Less : Provincial Share of Taxes :					
	87	91		128	
	755	1,062		1,260	
B. Revenue Expenditure					
Defence services	444	474		558	
Debt service	134	212		206	
Civil Administration	65	89		104	
Beneficent department	29	39		31	
Subsidies	—	219		119	
Other expenditure	93	56		68	
	765	1,089		1,086	
C. Surplus/Deficit					
	(10)	(27)		174	

TABLE 6
RECEIPTS FROM CUSTOM DUTIES

(Rs. in crores).

Particulars	1972-73	1973-75	1974-75
A. Import Duty			
Machinery	30	33	38
Vehicles	11	23	30
Iron and Steel and Manufacturers thereof	30	20	25
Mineral fuel oil and products thereof	24	18	25
Yarn and Fabrics of man-made fibre	6	15	16
Other items	56	86	91
Flood Relief Surcharge	—	30	35
	157	225	260
B. Export Duty			
Cotton yarn	19	68	116
Cotton raw	49	10	108
Rice	16	40	58
Grey cloth	13	23	25
Other items	10	25	27
	107	166	334
Total (A + B)	264	391	594

TABLE 7
RECEIPTS FROM EXCISE DUTY

(Rs. in crores)

Commodities	1972-73	1973-74	1974-75
A. Production Capacity Items			
Sugar	10	32	40
Cotton Fabrics and Yarn	23	32	35
Cement	7	8	9
Soda Ash	1	1	1
	41	73	85
B. Other Items			
(i) POL Group :			
Motor spirits (including Jet fuel)	40	38	38
High speed diesel oil	21	21	23
Motor POL Items	20	21	21
	81	80	82
(ii) Others :			
Tobacco	50	62	65
Vegetable Products	13	19	22
Remaining items	40	43	46
	103	124	133
Total (A + B)	225	227	300

TABLE 8
RECEIPTS FORM TAX ON INCOME

(Rs. in crores)

Particulars	1972-73	1973-74	1974-75
1. Taxes on Income	85	87	87
2. Corporation Tax	25	27	27
3. Taxes on Income under MLR 32	2	2	2
	-----	-----	-----
	112	116	116
	-----	-----	-----

RECEIPTS FROM SALES TAX

Sales tax on goods liable to custom

duties	30	45	48
--------	----	----	----

Sales tax on excisable goods	8	13	14
------------------------------	---	----	----

Sales tax on non-excisable goods.	5	7	8
-----------------------------------	---	---	---

	-----	-----	-----
	43	65	70
	-----	-----	-----

RATES OF GIFT TAX

Value of Taxable Gifts	Rates (In percentage)
On taxable value to Rs. 50,000	5
next Rs. 1,00,000	10
next Rs. 1,50,000	20
next Rs. 5,00,000	25
Balance :	30

TABLE 9

FEDERAL BUDGET 1973-74

Rates of Income Tax for Residents

(Individuals, Unregistered Firms, Association of
Persons, Hindu Undivided Family).

Assessment year : 1973-74

S No.	Taxable Income		Fixed amount of tax	%	Amount Exceeding
	Rs.	Rs.			
.			Rs.		Rs.
1.	1	—	1,000	25	—
2.	1,001	—	2,000	25	.5
3.	2,001	—	4,000	75	10
4.	4,001	—	6,500	275	15
5.	6,501	—	10,000	50	20
6.	10,001	—	15,000	1,350	25
7.	15,001	—	25,000	2,600	35
8.	25,001	—	35,000	6,100	50
9.	35,001	—	50,000	11,100	60
10.	Exceeding Rs.	50,000	20,100	70	50,000

SOURCE : *The Finance Act, 1973*. First Schedule, Part I, Rates of Income Tax, published by the Government of Pakistan, Islamabad, 1973.

TABLE 10

FEDERAL BUDGET 1974-75

New Rates of Income Tax for Residents

(Individuals Unregistered Firms, Association of persons,
Hindu undivided family).

Assessment year : 1974-75

S No.	Table Income		Fixed Amount of Tax	%	Amount Exceeding	
	Rs.	Rs.	Rs.		Rs.	
1.	1	—	2,000	—	2.5	—
2.	2,001	—	4,000	50	10	2,000
3.	4,001	—	7,000	250	15	4,000
4.	7,001	—	10,000	700	20	7,000
5.	10,001	—	15,000	1,300	25	10,000
6.	15,001	—	20,000	2,550	30	15,000
7.	20,001	—	25,000	4,050	35	20,000
8.	25,001	—	30,000	5,800	40	25,000
9.	30,001	—	35,000	7,800	45	30,000
10.	35,001	—	40,000	10,050	50	35,000
11.	40,001	—	50,000	12,550	55	40,000
12.	50,001	—	70,000	18,050	60	50,000
13.	70,001	—	1,00,000	30,050	65	70,000
14.	Exceeding Rs.	1,00,000	49,550		70	1,00,000

SOURCE : *Finance Act. 1974*, First Schedule, Part I, Rates of Income Tax, Published by the Government of Pakistan, Islamabad, 1974.

TABLE 11

FEDERAL BUDGET 1974-75

Rates of Tax : Corporate Sector

(Assessment years 1973-74 and 1974-75)

P A R T I C U L A R S	R A T E O F T A X
(a) Total Income	
(Other than Capital gains, dividend income and bonus shares)	30%
(1) Income-tax	(1) 30%
(2) Super-tax	(2) 35% in case of a banking company.
<i>Note:</i> Against basic rate of super-tax, there are certain cumulative rebates available to companies for meeting prescribed conditions.	
(b) Dividend Income	
(From Pakistani Companies)	
(1) Where shareholder is a company in which the public are substantially interested and dividend is paid on shares issued in Pakistan after August 14, 1947.	15%
(2) In all other cases	20%
<i>Note:</i> Private companies in respect of dividend income from Pakistani companies will pay tax on such income at ordinary business rates (60%), instead of the inter-corporate rate of 20% (Foreign companies declared as companies under Section 2(5A) of the Income Tax Act, 1922 excepted)	
(c) Bonus Shares or Bonus Issued	
(1) Where a company which issues bonus shares or bonus, as the case may be, is a public company.	15%
(2) In other cases.	20%

TABLE 12
COLLECTIONS FROM WEALTH TAX

(Rs. in crores)

Year	Amount
1969-70	1.30
1970-71	1.50
1971-72	2.00
1972-73	3.00
1973-74	3.40
1974-75	4.00

COLLECTIONS FROM GIFT TAX

1971-72	0.20
1972-73	0.45
1973-74	0.74
1974-75	0.75

COLLECTIONS FROM ESTATE DUTY

1971-72	0.40
1972-73	0.55
1973-74	0.60
1974-75	0.62

TABLE 13

WEALTH TAX RATES

Assessment years 1973-74 and 1974-75

S. No.	Particulars	%
1.	On the first rupees two lacs of net wealth, or where an assessee being a person owning and occupying a house for purposes of his own residence exercises the option to have the value of such house excluded from his assets on the first rupee one lac of net wealth.	Nil
2.	On the next Rs. 2 lacs of net wealth	1%
3.	On -do- 5 -do-	2%
4.	On -do- 5 -do-	3%
5.	On -do- 5 -do-	3½%
6.	On -do- 5 -do-	4%
7.	On -do- 5 -do-	4½%
8.	On the balance of net wealth	5%

SOURCE: *Pakistan Economic Survey 1973-74*, Published by the Government of Pakistan, Finance Division, Islamabad, June, 1974, P. 9.

TABLE 14
RATES OF ESTATE DUTY
1974-75

S. No.	Principal value of Estates		Fixed amount of estate duty	Percent- age rate	Value of Estate exceeding	
	Rs. to	Rs:				Rs.
1.	1	—	1,00,000	—	—	
2.	1,00,001	—	2,00,000	—	12½%	1,00,000
3.	2,00,001	—	3,00,000	12,500	17½%	2,00,000
4.	3,00,001	—	4,00,000	30,000	20	,00,000
5.	4,00,001	—	5,00,000	50,000	22½%	4,00,000
6.	5,00,001	—	6,00,000	72,000	25	5,00,000
7.	6,00,001	—	7,00,000	97,000	30	6,00,000
8.	7,00,001	—	10,00,000	1,27,500	35	7,00,000
9.	10,00,001	—	15,00,000	2,32,500	40	10,00,000
10.	15,00,001	—	25,00,000	4,32,500	45	15,00,000
11.	25,00,001	—	30,00,000	8,82,500	50	25,00,000
12.	30,00,001	—	35,00,000	11,32,500	55	30,00,000
13.	35,00,001	—	40,00,000	14,07,500	60	35,00,000
14.	40,00,001	—	45,00,000	17,07,500	65	40,00,000
15.	45,00,001	—	50,00,000	20,32,500	70	45,00,000
16.	Over Rs. 50,00,000		23,82,500	75	50,00,000	

TABLE 15
PAKISTAN DEVELOPMENT BUDGETS
 (Rs. in crores)

Total Development Expenditure	Year	Financing Pattern			Total Resources
		Internal Resources	External Resources	Use of cash balance	
12	1947-48	—	—	12	12
73	1948-49	73	—	—	73
106	1949-50	71	—	35	106
70	1950-51	70	—	—	70
90	1951-52	68	—	22	90
86	1952-53	49	7	30	86
91	1953-54	75	2	14	91
69	1954-55	65	4	—	69
71	1955-56	54	2	15	71
111	1956-57	107	4	—	111
158	1957-58	112	19	27	158
207	1958-59	123	84	—	207
177	1959-60	89	68	20	177
184	1960-61	88	88	8	184
213	1961-62	97	116	—	213
249	1962-63	86	162	1	249
277	1963-64	145	131	1	277
269	1964-65	143	126	—	269
288	1965-66	120	166	2	288
513	1966-67	151	362	—	513
463	1967-68	157	299	7	463
544	1968-69	307	238	—	544
708	1969-70	508	200	—	708
554	1970-71	281	239	34	554
533	1971-72	441	93	—	534
589	1972-73	241	337	11	589
660	1973-74	249	346	65	660
914	1974-75	327	557	30	914

TABLE 16

PAKISTAN ANNUAL DEVELOPMENT PLANS

Development Budgets

(Rs. in crores)

Particulars	1972-73	1973-74	1974-75
A. Major Development heads			
Autonomous Bodies	85	151	353
Departmental	98	169	235
Indus Basin	76	74	68
Fertilizer	—	—	32
Provinces	172	217	226
	431	611	914*
B. Sources of Financing			
(1) Internal resources :			
Capital receipts (net)	24	151	131
Revenue Surplus	(10)	(27)	174
Self-Financing by autonomous bodies	10	8	22
Provincial contribution	(14)	15	—
	10	147	327
(2) External assistances	311	440	557
(3) Resource gap	110	24	30
	431	611	914

* Excludes Rs. 64 crores representing likely short-fall in expenditure.

TABLE 17

PAKISTAN DEVELOPMENT BUDGET 1974-75

Estimates of Foreign Loans

(Rs. in crores)

Lending country/Agency	Projects	Amount
A. Project Loans		
(i) <i>For Federal Projects</i> Germany, USSR, USA, Japan, Switzerland, Canada, Italy, IDA and ADB.	T&T services and equipment Lighting and construction, equipment for airports. Agris- culture Research Projects, De- velopment of Oil and Gas resources, Drilling rigs and updating of Seismic equipment, Aero-magnetic survey and improvement of drilling efficiency.	17
(ii) <i>For Federal Autonomous Bodies.</i>		117
WAPDA (Rs. 60 crores)		
USA, Yugoslavia, Canada, Denmark, France, Germany, Japan, Switzerland, China, IDA, USSR, Czechoslovakia, Italy and USA.	Salinity control and reclama- tion project, Electrification of tubewells, Equipment for Tar- bea power house and hydel power station, Extension of Thermal power station of Quetta, Equipment for Mangla, Guddu, Multan, Sibi power stations.	
WPIDC (Rs. 42 crores)		
USSR, Germany, China, ADB and IBRD.	Karachi Steel Mills Corporation, Multan Fertilizer Factory, Swat Ceramic factory, Nowshera and 2500 spindles for spinning mill for Tarbela.	

Lending country/Agency	Project	Amount
RWR (Rs. 8 crores) Canada, U.K., France Germany, IBRD.	Carriage factory at Islamabad, spare parts for railway, proto- type diesel electric locomotives and improvement of railway.	
<i>(iii) For Provinces</i>		
IDA	Agriculture University, Lyallpur,	
Sind (Rs. 1 crore)		
Germany, Italy, IDA/France	Hyderabad and Khairpur Polytechnics, NED Govt. Engineering College, Karachi Pump Station for Karachi. Water supply system, Greater Karachi Bulk Water supply and power sprayers.	
NFWP (Rs. 5 crores)		
Belgium, Bulgaria and Austrian Supplier Credit.	Glass factory, Hazara fertilizer, Khasana Sugar Mil 1, Chitral Mining Development, Strach and liquid gulocose leather and tannery and cold storage	
		b/o 135
<i>(iv) For Autonomous Bodies and Private Sector</i>		107
<i>Pakistan Atomic Energy Commission (PAEC) (Rs. 2.30 crore)</i>		
Canada, Belgium, France.	Fuel fabrication plant for KANUPP, Northern zone nuclear power project, Peshawar and reproceessing plant.	
<i>Pakistan Broadcasting Coropration (PBC) (Rs. 0.71 crore)</i>		
Japan	Development Programme of Radio Pakistan.	
<i>Pakistan International Airlines (PIA) (Rs. 59.78 crores)</i>		
Japan and US EXIM Bank,	Purchase of three wide bodied aircraft and hanger with supporting facilities for the abve aircraft.	

Lending country/Agency	Project	Amount
Karachi Shipyard and Engineering Works (KS & SW) (Rs. 0.50 crore)		
Germany	Karachi shipyard	
Karachi Port Trust (KPT) (Rs. 5.54 crores)		
IDA, IBRD	Karachi port and power improvement.	
Agricultural Development Bank of Pakistan (ADBP) (Rs. 3.56 crores)		
IDA, ADB	Development of agriculture and fisheries.	
Industrial Development Bank of Pakistan (IDBP) (Rs. 8 crore)		
France, Germany, Switzerland, UK, Japan, Italy, IDA, and ADB.	Development of industry in private sector.	
Pakistan Industrial Credit and Investment Corporation (PICIC) (Rs. 19 crore)		
Denmark, France Germany, Netherlands, Switzerland, Italy, ADB.	Development of industry in private sector, Rice mills.	
Karachi Electric Supply Corporation (KESC) (Rs. 5.50 crore)		
ADB	Korangi Thermal Power Station, Transmission lines, power generation and distribution and its expansion.	
Sui Northern (Rs. 0.75 crore)		
ADB, IBRD	Sui Northern gas pipelines	
Fauji Foundation (Rs. 0.50 crore)		
USAID, IFC	Fertilizer Project	
Provincial Road Transport Corporation (RTC) (Rs. 1.15 crores)		
Italy, ADB and Romanian suppliers credit	Bus chasis and spare parts.	
B. Indus Basin		9
C. Commodity Loan		351
		602

SOURCE : *Estimates of Foreign Assistance for 1974-75*, Government of Pakistan, Finance Division, 1974, pp. 1-50

NOTE : Against the above sum, the Government hopes to obtain Rs. 557 crores as foreign assistance.

Inflation in Pakistan (1960 - 1973)

by ARIF AYUB*

A prolonged rise in prices in an underdeveloped country is said to depend on the flexibility of the internal economy, the extent to which government policies ease or aggravate the process, and, the favourability or unfavourability of external developments (22). This study is an attempt to measure the effect of the above factors on inflation in Pakistan.

In underdeveloped countries public investment could be economically justified only for its impact on productivity, for lowering cost curves and increasing the elasticity of supply curves. Added to low productivity and to low elasticity of supply there is third related, yet distinct, characteristic. This is resource immobility i.e. a low capacity of shifting resources from one use to another (19). It is suggested that the fundamental cause of inflation is the imbalance of the production structure, the real malady lying in the slower rate of growth of the agricultural sector. The agricultural bottleneck hypothesis is one of the most persistent ideas in the structuralist thesis. According to this hypothesis, population growth, growth of living standards and urbanisation combine to make excess demands on the food supply and the greater the income elasticity of demand for food and the higher the proportionate rise in supply of industrial consumer goods the greater is the possibility for upward movement of food prices relatively to others. (1) (8). Besides relatively higher prices for food are needed to ensure a larger food production to match the increased demand for food. But, if relatively higher food prices involve an absolute increase in these prices, inflationary pressure

*The author is at present Staff Economist in the Pakistan Institute of Development Economics. He is grateful to Mr. Meekal Ahmed (Deputy Chief Planning Commission of Pakistan), and Mr. Ehtishamuddin Ahmed (Lecturer in Economics, University of Islamabad) for their helpful comments and to Mr. Saeed Siddique, of the United Bank Limited (Computer Division) for carrying out the regressions.

would appear and set off a wage-price spiral (8). Moreover, it is claimed that in periods of agricultural shortfalls the best policy for the central banks to follow is to provide accommodating expansion in the money supply as it may be impossible to counteract apparently temporary shifts in the price level by means of traditional policy (12), (13).

Three indices were used in an attempt to measure and determine the relationship between rate of change of prices and change in agricultural production. (F) Change in net availability of foodgrains. (TABLE I).

(F/H), The rate of change of net availability per capita, and (D), the excess demand ratio for foodgrains (TABLE-II). The elasticity of demand with respect to population growth is assumed to be one while the income elasticity of demand for foodgrains is assumed to be 0.6 (6). (D^o) is the rate of growth of demand measured in this way minus the rate of growth of net availability.

$$D^o = (P^o_p + Y^o_n) - F^o$$

P^o_p —Rate or growth of population².

Y^o_n —Rate of growth of percapita income (constant factor cost).

N —Income elasticity of demand for foodgrain (0.6).

P^o —Rate of change in wholesale price index.

1. Foodgrains is defined as comprising, wheat, rice, bajra, jowar, maize and barley. Net availability of foodgrains in a particular year (t) is computed as follows (10) :-

$$Q = P^{t-1} + S + I^t + M^t - E^t - X^t$$

P = Production

I = Imports from foreign countries

M = Imports from East Pakistan

S = Change of Stocks

E = Exports to foreign countries

X = Exports to East Pakistan

The subscript 't' refers to the year. Production is Lagged one year as those crops, harvested in March-June are assumed to affect prices in the Subsequent July-June period. Stocks are ignored throughout.

2. Population figures were taken from the 1972 census i.e. (64892000) and adjusted backwards. 1959-60 population figures were taken from the Economic Survey 1971-72, which uses adjusted figures from the 1961 census. The population growth rate thus obtained was 3.14 percent against 3.61 with unadjusted data,

The regression equations are as follows :

(R² IS CORRECTED FOR DEGREES OF FREEDOM)

(FIGURES IN BRACKETS ARE T-RATIOS)

(D.W. = DURBIN-WATSON STATISTIC)

$$1. P^{\circ} = 4.37 + 0.10F \quad R^{-2} = -0.08 \quad D.W. = 1.32 \\ (0.38)$$

$$2. P^{\circ} = 4.9 + 0.04(H^{\circ}) \quad R^{-2} = -0.09 \quad D.W. = 1.28 \\ (0.19)$$

$$3. P^{\circ} = 4.76 - 0.07 D^{\circ} \quad R^{-2} = -0.08 \quad D.W. = 1.31 \\ (-0.29)$$

The equations show that all three indices of the agricultural sector are incapable of explaining P. Going to the other extreme, one can see to what extent inflation depends solely on monetary factors.

Instead of using deficit financing as an index of monetary effects on inflation it was decided to use money supply figures, thus emphasizing the aggregate approach (4). It was also decided to compare the State Banks definition of monetary asset ; M.A. (Currency in circulation + Demand Deposits + Time Deposits + Post Office Saving Deposit) as an explanatory variable with M₂ (Currency in circulation + Demand Deposits + Time Deposits).

Both variables were legged three quarters.

$$4. P' = 0.58 + 0.49 M' \quad A' - 3 \quad R^{-2} = 0.27 \quad D.W. = 1.02 \\ (2.32)$$

$$5. P' = 0.48 + 0.46 M' \quad 2' - 3 \quad R^{-2} = 0.25 \quad D.W. = 0.99 \\ (2.23)$$

The co-efficients of both variables are significant. However, R⁻² is quite low and there is some evidence of positive auto-correlation. The lack of any short run correlation between increases in the money supply and changes in the price level is a result of fluctuations in the observed money income ratio. With few exceptions, the effects of changes in the money income ratios are very large relative to changes in the nominal supply of money. In many cases changes in the nominal money income ratio has neutralised or offset changes in the money supply. It is interesting to note that the largest price changes have always followed a peak in the money income ratio. This fact is consistent with the hypothesis that the public will in the short run increase its money-income ratio when the nominal supply of money is increased rapidly. Eventually however, cash balances adjust to their

desired levels⁴ and the money-income ratio falls⁵. If the increase in the money supply is not sharply reduced in these periods or if real income (and hence desired balances) does not increase significantly then price increases will follow (20).

To complete the monetary analysis variables suggested by Soligo (20) and Mahbubul Haq (F) were also used :

(See TABLE-III)

Soligo-6

$$P^o = -36.69 + 122.93 \frac{M}{Y} R^2 = 0.33 \quad D.W. = 1.65$$

(2.64).

where $\frac{M}{Y}$ is the money income ratio

Mahbubul HAQ-7

$$P^o = -0.33 + 1.27 M^o \quad R^2 = 0.61 \quad D.W. = 1.32$$

(4.49)

where $M^o = M^o - Y^o - R^o$

M^o = Rate of change of money supply⁶

Y^o = Rate of change of real income

$K_o = \frac{M}{Y}$ = Money - income ratio

4. Regression of real money balances on real income in the current and previous periods give significant coefficients for both variables. Porter finds that the best fit is for specifications which assume that actual money balances adjust to desired balances with a one year lag (14).
5. There are many possible determinants of the desired money-income ratio. Two factors commonly mentioned are increasing monetisation of the economy and changes in yields or alternate assets (which determine the portfolio demand for money). Other factors, especially in Pakistan re when at existing prices there is an excess demand for goods and services, and prices are controlled, individuals will hold extra cash balances until they can find goods and services which they can and wish to buy.
6. "M^{2t-3} is used for money supply rather than M^{At-3} so as to remain consistent with the money supply definition (3). It was also decided to introduce indices of foodgrain availability (16)., although the

$$(8) P^o = -0.47 - 0.30f + 0.06M \quad R^2 = 0.55$$

(-1.49) (4.07)^{2t-3} D.W. = 1.83

$$(9) P^o = -0.32 - 0.4 \frac{F}{Y} + 1.29M^o \quad R^2 = 0.58$$

(-0.31) (4.30) D.W. = 1.24

Only effect was to confirm the significance of M^o as an explanatory variable. The partial correlation coefficient of M^o being 0.65.

M^o is derived from the Cambridge Cash-balance equation and is basically an estimate of rate of change of prices.

$$m = k_p y$$

where $p =$ is the level of prices

$m =$ money supply

$y =$ National Income (constant factor cost).

The coefficients of both variables are significant although R^2 is higher for Mahbubul Haq's variables (M^o). Moreover, a 1% change in M^o leads to about a 1% change in the rate of change of prices. Looking back the data seem to suggest that for the period 1961-62 contrary to Meenai's assertion (9) money supply was restrictive.

Apart from foodgrain availability and money supply, inflation might emerge because of fluctuations in exports, even if these fluctuations were to take place around a rising trend. Over the short-run, capacity to produce substitutes for imports cannot be increased, so there is an immediate danger of devaluation if the growth of income (and the demand for imports) continues while exports fall back. Moreover, governments may lift their expenditures when revenue rises as a result of a rise in export receipts, but expenditures may be inflexible in a downward direction. When exports recover, the process is not necessarily reversed. By that time rises in internal prices and income will have occurred and it will seem unrealistic going back to the old exchange rate. Incomes will also be rising in the export sector, and so will prices of imported manufacturers (particularly if the recovery of the country's exports is part of a world boom). So both in a slump and in a boom prices tend to move upward, and the long term pace of inflation depends in part on the violence and frequency of short term fluctuations in commodity markets (22). One difficulty of measuring this aspect is that since several theoretical mechanisms have been outlined it seems unlikely that a close relationship would be found between export variability and the rate of inflation.

Over the long-term many developing countries, which export primary products, experience difficulties with their balance of payments. There is an inherent and over-present risk of inflation in these economies because of the active or potential need for structural change. So long as exports are booming it is possible to grow rapidly without inflation and without industrialisation. But every commodity market weakens one day, and if growth has to continue, if only because of

population increase, structural change has to occur (17). The long term decline in the external position of developing countries leads to domestic import substitution, a process entailing demand shift which intensify the inflationary situation.

The indicator used to exhibit the effect of external development on inflation :

one :- 1. Change in value of imports :

X.— Change in value of exports.

(X°/Y) Rate of change of export ratio

I°_p Rate of change of indices of unit value of Imports

(I°/Y) Rate of change of import ratio

X°_p Rate of change of indices of unit value of Exports

(A contraction in the import ratio is assumed to imply an increase in import substitution and a consequent rise in inflation (2).

(See TABLE-V, VI and VII)

$$(10) P^{\circ} = 0.28 - 0.27F + 0.04M_{2,t-3} + 0.01X - 0.0003 I$$

$$(-1.23) (1.59) \quad (0.52) \quad (-0.01)$$

$$R^2 = 0.48 \quad D.W. = 2.19$$

$$RMI = 0.85, \quad RMX = 0.78, \quad RXI = 0.91$$

$$(11) P^{\circ} = 0.19 - 0.05 \left(\frac{F^{\circ}}{H} \right) + 1.02M^{\circ} - 0.06 \left(\frac{X^{\circ}}{Y} \right) - 0.08 \left(\frac{I}{Y} \right)_{t-1}$$

$$(-0.40) \quad (3.58) \quad (1.59) \quad (-1.25)$$

$$R^2 = 0.68 \quad D.W. = 1.81$$

$$YMP = 0.62$$

$$(12) P^{\circ} = 0.18 - 0.06F^{\circ} + 0.95M^{\circ} - 0.10 I^{\circ}_p + 0.21 X^{\circ}_p$$

$$(-0.52) \quad (3.66) \quad (-1.20) \quad (2.52)$$

$$R^2 = 0.78 \quad D.W. = 2.58$$

$$YMP = 0.66$$

$$YXP = 0.48$$

The results, however, again confirm the prevailing influence of M° , most of the coefficients of the other variables being insignificant. In equation (10), however, the level of the ratio seems to be low due to the presence of multicollinearity as the correlation coefficient between $M_{2,t-3}$ and X is 0.78 and between X and I is 0.91.

In equation (11) The partial correlation coefficient between M° and P° is 0.62. In equation (12) besides M° , the rate of change of indices of value of exports (X°_p) also seem to affect P° , the partial correlation

coefficient between P^o and X^o , being 0.48 while between M^o and P^o it is 0.66.

An attempt was made, without much success, to determine whether inflation could be explained entirely with reference to structural causes.

$$(13) P^o = 3.07 + 0.08 X^o - 0.14 \frac{(I^o)}{Y} - 1 - 0.04 D^o$$

$$(1.91) \quad (-.147) \quad (-.019)$$

$$R^2 = 0.32 \quad D.W. = 2.21$$

Before outlining measures for the control of inflation it would be preferable to consider Tobin's comment on the effects of inflation⁷ in order to keep the urgency of the problem in its proper perspective. Inevitably, any study on inflation in undeveloped countries ends up in the shifting sands of the monetarist structural controversy. The structuralist position is set out by Prebisch. "Inflation is a manifestation of economic and social change an essentially dynamic phenomena. Consequently, campaigns to prevent it cannot be waged, through autonomous monetary measures, but must form part of a vast and deliberate effort to channel economic and social forces towards the attainment of clearly defined objectives (15).

The Government views on the present inflation is that it is due to a host of factors including devaluation, increase in world prices (incorporating increase in import prices and increased exports), higher farm prices, higher wages, smuggling, deficit financing and psychological factors. Moreover, the Government realises that it "has a complex and difficult task to deciding how to strike a balance between the need for stable prices and the demands for growth, development and full employment on the other. Government cannot, however, stop development because of the risk of some increase in prices (11).

7. "The ultimate social cost of anticipated inflations the wasteful use of resources to economize holdings of currency and other non-interest bearing means of payments. An unknown but substantial share of the stock of money belongs to holders who are not trying to economize. These include hoarders of large denomination currency, for reasons of privacy, tax evasion or illegal activity, they include trades-men and consumers whose working balances turn over too rapidly or are too small to justify any effort to convert them in interest bearing.

Moreover, Governments efforts to stabilise the prices of seven essential commodities seems to be an attempt of controlling the thermometer, having given up all hope of controlling the temperature. Price instability is better controlled by monetary and fiscal policy than by using any particular industry to dampen down such a generalised phenomena as inflationary pressures.

The Government views on inflation presume a general expectation of stability in the value of money. The Government viewpoint, however, fails to make a distinction between the proposition that inflationary pressure in the economy will assist the task of mobilising resources for development and to proposition that inflation is the result of rapid development. Both propositions, however, assume that such inflationary pressure will not introduce offsetting distortions causing significant real losses to the economy as a whole. The Government probably without realising it seems to be following the first proposition.

Regarding the second proposition it is possible that most of the supply inelasticities and bottlenecks are not autonomous or structural, but one caused by price and exchange rate distortions generated during the course of the inflationary process itself. Moreover, in the heavily inflated countries the rate of expansion of money supply has been of such an order of magnitude (20 to 30 percent per year) as to outstrip any realistic possibility of growth of the supply (via increases in the real domestic product plus net imports), at that rate of monetary expansion no economy, even though highly developed and presumably exempted from major inelasticity or supply bottlenecks, would fail to have inflation.

In practical experience resort to inflation as a method of financing economic development is generally prompted by the inability of the developing country to raise enough revenue by taxation and by borrowing from the public to finance its development plans.

Unfortunately, the same Characteristics of under-development that limit the capacity to finance development by orthodox fiscal

BF. Assets The ultimate disaster of inflation would be the breakdown of the monetary payments system. History suggests the central banks can accelerate for long without generating hyperinflations distinctive of the payments mechanism (21).

methods also place rather narrow limits on the possibility of financing development by inflation. Especially underdevelopment implies a relatively smaller use of money than is common in advanced countries, and therefore a relatively smaller base on which the inflationary tax can be levied (5). Specifically, inflationary financing may impede growth in three major ways. In the first place, the government may be under strong political pressure to protect important sectors of the community from the effects of inflation. Control when resorted to inevitably distort the allocation of resources within the economy. Moreover, variation in the rate of inflation divert a great deal of private effort into forecasting and speculating and hedging against the uncertainties involved. Finally, inflation introduces a progressive tendency toward exchange rate overvaluation, balance of payments difficulties and resort to increasing protectionism which in turn results in the diversion of resources away from export industries and toward import substituting industries and a consequent loss of economic efficiency.

Anti-inflationary monetary policy may be impossible if Ministers insist on a programme that cannot be paid for in real terms. "The Governor of the Central Bank may be the last man on the political token pole, he may be residual, but his policies are not (18). Money factors are not residual but are at the very core of the process. The inflated countries are those that choose incompatible targets.

FOOD GRAIN AVAILABILITY IN WEST PAKISTAN

(Fig: '000' Tons)

TABLE-I

Fiscal Years	Rice	Wheat	Bajra	Jowar	Maize	Berley	Domes- tic Pro- duction	EXPORTS			IMPORTS	Avail- ability	Popula- tion	Foodgrain Availabi- lity (000) Per Capita Per Day
								Rice (Abroad)	Rice E. Pak.	Wheat E. Pak.	Wheat			
											7-8-9-10+11			
1	2	3	4	5	6	7	8	9	10	11	7-8-9-10+11			
1958-59	976	3845	309	212	481	158	5981	36	164	—	593	—	—	—
1959-60	979	3847	324	229	478	137	5994	56	76	18	804	6635	45030	14.43
1960-61	1014	3754	301	217	432	118	5836	48	102	—	1062	6906	46200	14.63
1961-62	1109	3963	364	244	480	114	6274	128	22	8	666	6344	47651	13.06
1962-63	1078	4104	416	247	475	122	6442	134	176	15	711	6660	49147	13.26
1963-64	1173	4096	356	234	518	109	6486	132	131	—	864	7043	50690	13.55
1964-65	1329	4518	439	288	520	116	7210	181	30	29	1492	7738	52282	14.53
1965-66	1296	3854	364	270	531	82	6397	139	298	16	744	7501	53924	13.65
1966-67	1343	4266	365	273	578	87	6912	176	233	29	1146	7105	55617	12.47
1967-68	1475	6317	407	286	779	106	9370	116	148	14	1419	8053	57363	13.75
1968-69	2000	6513	325	258	616	95	9807	125	275	157	16	8829	59164	14.63
1969-70	2363	7179	297	279	657	107	10882	87	481	127	227	9339	61012	15.02
1970-71	2165	6374	375	324	706	90	10014	179	241	8	290	10744	62937	16.69
1971-72	2226	6782	354	307	694	101	10464	320	166	—	750	10278	64913	15.51
1972-73	2202	7400	295	297	297	101	10943	517	—	—	1367	11314	66951	16.59

TABLE-II

YEARS	Rate of Change of prices	Rate of Change of net availabi- lity of food grains	Rate of Change of population	Rate of Change of Per Capita Income const- tant factor cost 1959-60. $\frac{Y}{H}$	$Y \times 0.6$	(3) + (5)	(6) - (2)
	P	F	H				D
	1	2	3	4	5	6	
1960-61	4.77	4.09	2.51	2.25	1.41	3.92	0.17
1961-62	-0.11	-8.14	3.14	3.03	1.82	4.96	+13.10
1962-63	-1.71	4.08	3.14	3.74	2.24	5.38	+1.30
1963-64	3.39	5.75	3.14	3.35	2.01	5.15	-0.60
1964-65	6.77	9.88	3.14	4.74	2.84	5.98	-3.90
1965-66	-1.34	-3.07	3.14	1.90	1.14	4.28	+7.35
1966-67	11.00	-5.29	3.14	1.17	0.70	3.84	+9.13
1967-68	1.06	13.34	3.14	4.39	2.63	5.77	-8.57
1968-69	3.07	9.64	3.14	3.10	1.86	5.00	-4.64
1969-70	2.05	5.78	3.14	3.65	2.19	5.33	-0.45
1970-71	3.89	15.04	3.14	-2.28	-1.37	1.77	-13.27
1971-72	10.30	-4.34	3.14	-1.91	-1.15	1.99	+6.33
1972-73	18.63	10.09	3.14	3.77	2.26	5.40	-4.69

TABLE-III

YEARS	Index Nos. of wholesale prices (General)	G.D.P. (constant factor cost) 1959-60 crore	Population 1000	Per Capital G.D.P. (constant factor cost) 1959-60	G.D.P. at current factor cost	Rate of growth of G.D.P. current	M2t-3	M Y
1959-60	100.00	1598.4	45030	355	1598.4	—	486	.3040
1960-61	104.77	1677.1	46200	363	1741.1	8.93	519	.2980
1961-62	104.65	1781.0	47651	374	1817.4	4.38	536	.2949
1962-63	102.86	1911.8	49147	388	1949.8	7.28	603	.3092
1963-64	106.35	2033.6	50690	401	2186.4	12.13	667	.3050
1964-65	113.55	2200.7	52282	420	2469.1	12.98	819	.3316
1965-66	112.03	2309.2	53924	428	2660.5	7.75	869	.3266
1966-67	124.36	2406.8	55617	433	3032.9	14.00	1056	.3488
1967-68	125.68	2591.1	57363	452	3330.1	9.80	1153	.3462
1968-69	129.54	2757.6	59164	466	3551.1	6.64	1229	.3460
1969-70	132.19	2947.4	61021	483	3897.1	9.74	1386	.3556
1970-71	137.32	2969.7	62937	472	4130.0	5.98	1535	.3716
1971-72	151.46	3006.8	64913	463	4328.8	4.81	1572	.3631
1972-73	179.68	3452.5*	66915	516*	5630.7* (4986.3)	30.08* (15.19)	1924	.3418* (.3858)

1. 25 years of Pakistan Economic Statistic. From 1960-61
 2. C.S.O. Bulletin February, 1973. 1972-73.
- 1972 Census
3.14%/Annum
From 1960-61
2.31%/Annum
From 1959-60/
1960-61/

*Note: Data for G.D.P. (Constant and Current) in 1972-73 have been revised on the basis of firm data on output and input and income in the agricultural sector. Income of sectors like transportation and communications, Banking and Insurance, Public Administration and Defence and P.I.A. which was not being allocated previously has now been allocated to the respective sectors and as such the figures prior to 1972-73 will not be comparable. *Figures in brackets give the growth rates using adjusted data.*

TABLE-IV

$$\frac{(M)}{Y} = K$$

YEAR	P Rate of change of prices	M2t-3 Rate of change of money supply	Y Rate of change of GPD (Constant factor cost) 1959-60	Rate of change of money Income ratio	M ----- (M2t-3) - Y - K
1960-61	4.77	6.79	4.92	- 1.97	3.84
1961-62	- 0.11	3.28	6.10	- 1.04	- 1.78
1962-63	- 1.71	12.50	7.34	4.85	0.31
1963-64	3.39	10.61	6.37	- 1.36	5.60
1964-65	6.77	22.79	8.22	8.72	5.85
1965-66	- 1.34	6.10	4.93	- 1.51	2.68
1966-67	11.00	21.52	4.23	6.80	10.49
1967-68	1.06	9.18	7.66	- 0.74	2.26
1968-69	3.07	6.59	6.42	- 0.06	0.23
1969-70	2.05	12.77	6.88	2.77	3.12
1970-71	3.89	10.75	0.76	4.50	5.49
1971-72	10.30	2.41	1.25	- 2.29	3.45
1972-73	18.63	22.39	5.82	6.25	10.32

TABLE-V

YEARS	Exports (Abroad) (Crores)	Exports & Re-Exports To East Pakistan	Total	X/Y
1959-60	76.31	56.94	133.25	.083
1960-61	54.08	82.55	136.63	.078
1961-62	54.29	85.51	139.80	.076
1962-63	99.81	95.72	195.53	.100
1963-64	107.50	89.52	197.02	.090
1964-65	113.96	87.45	201.41	.081
1965-66	120.36	120.86	241.22	.090
1966-67	129.73	132.48	262.21	.086
1967-68	164.48	123.30	287.78	.086
1968-69	169.99	138.53	308.52	.086
1969-70	160.86	166.62	327.48	.084
1970-71	199.84	137.76	337.60	.081
1971-72	337.14	47.40 (Nov.)	384.54	.088
1972-73	855.12		862.35	.153 (.173)

1. Pakistan Economic Survey 1971-72

2. C.S.O. Monthly Statistical Bulletin 1973.

TABLE-VI

YEARS	Imports from Abroad (Crores)	Imports from East Pakistan	Total	Import Ratio X/Y
1959-60	180.53	36.24	216.81	.135
1960-61	217.32	36.35	253.67	.145
1961-62	223.62	40.20	263.82	.145
1962-63	280.01	47.15	257.16	.193
1963-64	298.16	51.12	349.28	.159
1964-65	367.24	53.71	420.95	.170
1965-66	288.03	65.18	353.21	.132
1966-67	362.57	73.89	436.46	.143
1967-68	332.72	78.50	411.22	.123
1968-69	304.66	87.15	391.81	.110
1969-70	328.51	92.34	420.85	.117
1970-71	360.24	80.37	440.61	.106
1971-72	349.53	36.07 (Nov.)	385.60	.089
1972-73	839.83	—	839.83	.149 (.168)

1. Pakistan Economic Survey 1971-72

2. O.S.O. Bulletin February, 1973.

TABLE-VII

YEARS	Index Nos. of Whole Sale Prices (General)	INDICES OF UNIT VALUE ²	
		Exports	Imports
1959-60	100.00	—	—
1960-61	104.77	100.0	100.0
1961-62	104.65	102.5	110.4
1962-63	102.86	100.5	114.1
1963-64	106.35	100.5	118.5
1964-65	113.55	104.5	116.1
1965-66	112.03	108.5	113.0
1966-67	124.36	105.1	117.0
1967-68	125.68	108.6	115.2
1968-69	129.54	107.6	114.5
1969-70	132.19	106.1	122.2
1970-71	137.32	111.9	149.7
1971-72	151.46	130.3	134.3
1972-73	179.68	240.5 (Dec.)	255.5 (Dec.)

1. 25 Years of Pakistan in Statistics
2. Pakistan Economic Survey 1972-73.

REFERENCES

1. AHMAD (Z) "Inflationary Process and its control in less Developed Countries" In Robinson and Kildern "Economic Development in South Asia" 1970.
2. ARGY (V) "Structural Inflation in Developing Countries" Oxford Economic Papers, October, 1970.
3. AYUB (A) "Towards a Definition of Money Supply in West Pakistan"
4. HASSAN (P) "Deficit Financing and Capital Formation"
5. JOHNSON (H.G.) "Inflation and Economic Growth". In Essays in Monetary Economics 1967.
6. JOHNSTON (M.F.) & MELLOR (T.W.) "The role of Agriculture in Economic Development" The American Economic Review September, 1961.
7. MAHBUBUL HAQ "Deficit Financing in Pakistan 1951-60" Monograph in the Economics of Development No. 3 Pakistan Institute of Development Economics.
8. MAYWARD (G) "Inflation and Growth : some lessons from latin American Experience" Oxford Economic Paper, June, 1961.
9. MEBNAI (S.A.) "Credit and Monetary Policies in Pakistan".
10. PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS "A measure of Inflation in Pakistan" Monographs in the Economics of Development No. 4
11. THE PAKISTAN TIMES "Wednesday, 6th June, 1973.
12. PORTER (R.C) "The Inflationary Implications of crop Failure" The Pakistan Development Review, Spring 1962.
13. PORTER (R.C) "The danger of Monetary Policy in Agrarian Economics" The Pakistan Development Review Winter 1961.

REFERENCES

14. PORTER (R.O) "Income Velocity and Pakistan's Second Plan" The Pakistan Development Review", Summer 1961.
15. PREBISCH (R) "Economic Development and Monetary Stability, the False Dilemma Economic Bulletin for Latin America March 1961.
16. RABBANI () & REPPETIO() "Foodgrain Availability, Money Supply and Prices in East Pakistan" The Pakistan Development Review Winter 1969.
17. SEERS (D) "A Theory and Inflation and Growth in Undeveloped Countries Based on the Experience of Latin America" Oxford Economic Papers, June, 1962.
18. SHAW (E.S) "Comment on" Brazilian Stabilisation Programme 1962-66" Kafka (A.E.) The Journal of Political Economy August, 1967.
19. SINGER (H.W.) "Deficit Financing of Public Capital Formation" Social and Economic Studies September 1958.
20. SOLJOO (R) "Monetary Problems in Pakistan" The Journals of Political Economy August, 1967 (Supplement).
21. TOBIN (J) "Inflation and Unemployment" The American Economic Review March, 1972.
22. UNITED NATIONS COMMISSION FOR LATIN AMERICA "Inflation and Growth : A summary of Experience in Latin America" Economic Bulletin for Latin America February, 1962.

Inflation - A Critique of Prevailing Explanations

by IZZAT MAJEED*

In discussing the present rising level of prices most of us comfortably assume away the task of explaining reality by losing ourselves in the analysis of appearances and true to the spirit of status-que economics, fail to grasp the essence of the phenomenon.

The analysis of appearances sums up the situation thus: "There was considerable pressure on the price level during the period, July 1973 to March 1974. The wholesale price index showed a rise of 29.4 per cent over the corresponding period of 1972-73. The consumer price index for Government, industrial and commercial employees (combined) recorded an increase of 29.4 per cent.

"There were several factors contributing to inflationary pressures in the country. There was a substantial increase in effective demand since July 1972 due to increase in money incomes resulting from higher volume of exports; higher prices of exports because of devaluation and international inflation; increase in farm incomes with higher farm prices; and increase in wages of labour. The rise in demand was also due to high level of deficit-financing during 1972-73 necessitated by an increase in development expenditures particularly on defence (security) and social sectors, viz; education and health. It may be pointed out, however, that during the period, July 1973-March 1974, there was no deficit financing but rather a surplus in the budgetary operations of the Federal Government. Rise in population also contributed to increase in demand.

"The factors operating on the cost side were higher costs of imports, both of consumer goods and raw materials because of devaluation and international inflation (accentuated by the energy crisis); increased debt servicing and depreciation charges; higher prices of

*The author is teaching the University of the Punjab, Lahore.

major agricultural products and higher wage costs. On the supply side, the availability of a number of consumer items was reduced as a result of heavy loss of foodgrains and animals caused by floods, hoarding of goods by consumers to hedge against rising costs and by traders for speculative purposes and, of course, smuggling". (Pakistan Economic Survey 1973-74, first draft).

As a narration of the interconnected and interacting events of our economic life this analysis is reasonably accurate. It tells us what happened and is happening within our economic processes. However, what the average citizen wants to know is why it happened, is happening, and what likely course the level of prices will adopt in the near future.

To understand this, we must begin by reminding ourselves that Pakistan is still predominantly a capitalist economy at least as far as the industrial relations of production are concerned.

The Government policy is to follow what it calls a "mixed economy" where both public and private sectors allegedly play an effective role in the development of the country. Despite the nationalization of some industries, nevertheless, the private sector still controls more than 80 per cent of the total industrial assets. Moreover, efforts to the contrary notwithstanding, our capitalist economy is concretely subservient and dependent upon world imperialism, notably US imperialism. Repeated misuse and overuse has robbed this term of content and therefore, we must concretize it once again. Imperialism means the control by nationals of one country over economic resources in another country, whether these resources are labour, capital, commodities, land or mineral resources such that the resources are used largely for the benefit of foreign nationals. The key concept is CONTROL, whether it is exerted directly, as in the classical colonial situation, or indirectly through neo-colonialism, as for example, in the manipulation of international commodity prices (the practice of unequal exchange) or through the paraphernalia of aid, loans etc. A clarification is in order here. By discussing inflation as an international phenomenon we reduce the world to the confines of the capitalist/imperialist bloc, and to a lesser extent the Soviet bloc, where the invisible hand of market has sneaked back once again, signifying the balance of class forces in its countries. Beyond these narrow confines, however, we have the example of socialist countries, where inflation has been effectively wiped out and in

some cases the prices of basic consumer items have in fact gone down, while those of others have remained stable.

Capitalism and inflation, often of disturbing proportions are inseparable Siamese twins. And the somewhat desperate tonic of the "mixed economy" is hardly a cure for this basic disease capitalism. The archtypes of the mixed economy, Britain, West Germany, Canada etc. have experienced serious political convulsions because of inflation and their tonic, we must remember, is pretty old. Let us attempt to understand inflation in this context.

Wars, revolutions, famines, and pestilence have almost invariably produced inflationary phenomena. When the needs of a money-hungry Government could not be satisfied by politically feasible taxation, the usual case during times of trouble when production is sharply reduced or its output hungrily consumed by the economic dictates of war, (Pakistan during the 1971 war and the aftermath), these needs were met by debasing precious-metal coinage or by resort to the printing press to produce paper money. The latter device, however, is feasible on a large scale only in a highly developed commodity production system, that is, capitalism. The unplanned "demand-pull" type of inflation which takes place during such times of trouble is simple to understand in terms of "too much money chasing too few goods" and needs no elucidation.

Whether Government deficit are financed by debasing precious metal coins, printing paper money, or expanding bank-deposit money, it all comes out pretty much to the same thing in the end. The deficits are transformed via price increases (decreases in the value of money) into informal sales and property taxes with an extremely uneven impact on different economic and social groups. For certain types of business firms, however, the results are very profitable; instead of a tax, inflation produces for them the equivalent of a big tax refund. For the most part, the economic burden falls on the masses of poor people, as is the case in Pakistan today. The impact of inflation on middle and high income people varies greatly. It works out as a heavy confiscatory property tax on all savers and investors who are, economically speaking, slow footed and slow thinking. It victimizes all creatures of habit and all practitioners of ancient capitalist virtues, like those who have faith in life insurance and in savings accounts and who would be horrified at the notion of confisca-

tory taxes on accumulated wealth. Prominent among the beneficiaries of inflation are individuals and business firms of the alert heavy borrowing, fast moving, speculative type, and, more generally, all the sly, swift killers of the business and financial market jungles.

I have argued that the crisis of inflation is a major aspect of the crisis of capitalism. This crisis exists because inflation is turning into its opposite. From a tonic drug it is turning into a toxic drug. In its tonic-drug phase (Pakistan during the so-called boom of the sixties) the inflation stimulated production and reduced unemployment. In the more advanced capitalist countries when unemployment was reduced to a level which threatened the capitalist power of exploitation of the working class, the source of all profits, inflation provided for a time, a substitute for the industrial reserve army as capitalism's way of maintaining its power of exploitation. Eventually, working class reaction to the inflationary substitute for unemployment helped produce a more rapid acceleration in the rate of inflation. This in turn further impaired capitalism's already damaged inner mechanism for counter-acting disturbances of equilibrium. It produced in the end an endemic money and credit crisis and helped to blow up (in conjunction with other forces) the international capitalist money and trade system.

The theoretical asessence of the crisis of inflation can be traced back to the Great Depression of the 1930's which convinced the capitalist class that it must never again risk the danger of mass unemployment in the industrial working class. There also emerged a tacit understanding that Government spending, and, when necessary, Government deficit spending would be used to prevent mass unemployment in the main industrial sectors of the economy. Since employment, production, and profits are mutually inter dependent variables, such a Government spending policy would also put a floor, and hopefully a highlone, under the size of the business profit flow. While there was much disagreement (and there still is) over details and allocations, there was a consensus that Government spending and credit support associated with the stimulation of production in major industries, would be in line with the requirements of the tacit agreement.

This apparently fool proof arrangement took care of everything except the contradictions of capitalism. Increasing employment and reducing the number of unemployed (diminishing the industrial

reserve army) is synonymous with increasing production and profits. But such conditions also tend to make the employed workers increasingly unmanageable from the point of view of continued exploitation and hence also of the continued maintenance and enlargement of the flow of surplus value in its various forms (profits, interest, rents, dividends, capital gains, high salaries and bonuses to big business officials and so on). When employment is increasing, the workers move into a position where they can obtain big wage increases and project a much higher level of future wage rates. This threatens to produce a big reduction in future profit rates and, most important, in the current capitalized value of future profits as reflected in the stock market prices of corporation common stock. For it is far from certain (especially in the case of a Third World country like Pakistan) that domestic and world market conditions will permit all or most wage increases to be fully passed on in the form of higher prices. Price increases have a very uncertain impact on the market structures of individual industries and firms, even in so called monopoly and oligopoly industries. In addition to the uncertain effects on market position and structure, the transformation of higher wages into higher prices produces troublesome financial problems. Thus, to mention one of many, more credit will have to be extended to customers to enable them to buy at higher prices. More generally the circulation of commodities, including labour power, at higher prices requires that there take place an expansion of money and bank credit to sustain the expanded money value of the circulation.

The analysis made so far, however, is not viewed very happily by the Keynesian School. But let us listen for a moment to the glad tidings brought to us by these modern apostles of inflation. The gospel preached by the Keynesians goes something like this: Don't fight the workers too hard about money wage rate increases, and above all don't try to beat the workers down by increasing unemployment. These workers suffer from the "money illusion" and, not being trained economists, cannot distinguish between real income and money income. Just give the workers enough the way of money wage increases to keep them happy for moment and then, when they are not looking, raise prices to make up for the wage rate increases (in other words substitute price increases for the industrial reserve army). Don't worry too much about competitors. All of them, if they listen to us Keynesians, as they must, will be doing pretty much thing, and

there will take place a general rise in wages, profits and commodity prices which will leave all relative competitive positions pretty much unchanged. And the same sort of thing will be happening in the remaining capitalist countries too, as the Keynesian gospel has swept the world, so that you don't have to worry too much about foreign competition.

Now as to the additional money and credit needed to maintain circulation at higher prices, that is the simplest problem of all to solve. Translated into everyday language the Keynesian gospel propounds a mystical metaphysical theme: In the beginning was the deficit and, we may add, the deficit was rather lonely. That same divine (or devilishly clever) Government spending which produces increasing effective demand, production, employment, and profit, also produces an abundant flow of holy monetary water in the form of Government IOUs. These are magically transformed into the blood and body, i.e., cash reserves, of the central banks and the commercial banks. Here they provide the foundation for at least a five-fold expansion of loans to business firms.

In brief, by clever manipulation of Government deficit spending, central and commercial banks credit creation, interest, taxes, and may be a little fiddling around with import duties quotas here and there, the whole arrangement could be efficiently managed and the economy could be tuned to play the soothing music of steady growth. All would be for the best in the best of all possible capitalist words, and the only price that need to be paid for the arrangement in a developing economy would be the minor social inconvenience of a general price level rising, say about a genteel 5 per cent a year.

The goal of the Keynesian Inflationary Strategy is laudable, from the point of view of capitalist survival as it is simple. It is to achieve the highest possible levels of production, employment, and profits and to keep them high. This means that the business cycle must be flattened out or eliminated altogether. In particular, the cyclical crisis that triggers the collapse into depression conditions must be inhibited. Production and employment must move in one direction only-up. Expansion and the accumulation of capital must be uninterrupted.

*A detailed analysis of this fundamental characteristic of the capitalist process of production is beyond the scope of this brief paper. However, I shall attempt a brief definition here.

Desirable as these goals may be for capitalism, it can be shown that they violate the essential nature of the capitalist organism, its essential physiology. The cyclical mode of life of capitalism is not an aberration, nor is it entirely produced by capitalism's need for periodic restoration of the industrial reserve army. It is also produced by the need for a periodic correction of the impairment which periodically occurs in the polarity of commodities and money. Such polarity is fundamental requirement for the equilibrium and inner discipline of the commodity-producing systems.

The basic characteristic of capitalism is the opposition between ordinary commodities and a special or money commodity. Only the money commodity is endowed with the possession of direct and instantaneous purchasing power. By contrast, ordinary commodities can obtain or realize their purchasing power only indirectly, only through the often painful process of conversion into money. To put it in a typical fetishistic language of commodity production, all ordinary commodities must sell themselves for money and endure all the humiliation that this may entail. By contrast the money commodity, and it alone, is always fawned upon, socially prestigious master of ordinary, low-caste commodities.

The often painful experiences which attend the conversion of ordinary commodities into money have a beneficial effect on the system as a whole in that they generate the market signals which producers need to keep from overproducing. Without the polarity of commodities and money, and their signal-generating tensions, there would be no mechanism for adjusting the system in the direction of inter-industrial balance and proportionality.

During a period of rapid growth of credit buying, the output of all goods is so easily sold that the illusion develops that this condition will continue forever i.e. that the polarity of commodities has been permanently eliminated. It is at times like these that the capitalist joyously proclaim that indeed all commodities are money. This is just about as possible as for all Catholics to be pope.

The business cycle may be described as an expansion which impairs the polarity of commodities and money and a contraction which redresses that impairment. The cyclical crisis point at which the change from expansion to contraction occurs involves three aspects: a labour power crisis, a money crisis, and an ordinary

commodity crisis. (This corresponds to the character of capitalist commodity production which in addition to ordinary commodities, features two special commodities-labour power and money).

The labour power crisis takes the form of an exhaustion, or near exhaustion (both terms are used relatively, depending upon the stage of capitalist development of an economy) of the industrial reserve army, which tends to make the working class unmanagable for the purpose of capitalist exploitation. The money crisis takes the form of a liquidity crisis, while the ordinary commodity crisis takes the form of an emergence of inter-industrial imbalances in productive capacities and inventories. Since the three aspects of the cyclical crisis are interrelated, they tend to appear more or less simultaneously and to disappear the same way. Of the three related aspects, it is the liquidity crisis which is the most visible and the most dramatic. This gives rise to the stubborn illusion that the business cycle is a purely monetary or financial phenomenon and that it can therefore be eliminated by clever manipulation of the money, credit, and tax systems. This illusion is one of the main foundations of the Keynesian Inflationary Strategy. In addition, inflationary expectations became anathema to this strategy. Once these expectations took hold of people's thinking, they were workers or capitalists or anything in between, the inflationary spiral began to wind upward with ever increasing speed. In general, the inflationary strategy worked well as long as it was only an insider's secret strategy, so to speak, only known to the toplayers of the establishment. But once it became common knowledge and all sorts of people started to do something about protecting themselves against inflation, or taking advantage of it, the career of the inflationary strategy as an effective economic stimulant was doomed. It began to turn into an agency of chaos and disorder.

Viewed from this perspective, the current inflationary spiral in Pakistan emerges as the direct outcome of the domestic economic organization and relations of production, and its incorporation into the world imperialist system. From here our analysis can proceed on two diverging paths. One leads to a radical overhaul of our economic structures and to the development of a world outlook fundamentally opposed to and irreconcilable with capitalism and feudalism. The other sets itself the more modest task of initiating the era of social-democracy in our socio-economic framework and this is the one with which we are concerned here.

It was mentioned earlier that the so-called mixed economy was essentially a new face of capitalism. In other words the mixed economy and modern capitalism are one and the same thing. This much Keynes has already taught us. No modern capitalist economy, either developing or developed, can function without the patronage of a responsible, and in some cases, expanding public sector. This is so not only because of the internal contradictions of the capitalist process of production on a purely technical level, but also because of the political ramifications so ruthlessly generated by old style "free enterprise". I merely want to point out that through the extension of the public sector brought about by the nationalization of certain key industries and the financial institutions, is a positive step in the direction of a planned economy, catering for the interests of the broad masses of the people, this act, nevertheless, has been unable to make a dent in the chaotic structures of capitalism. These nationalized industries are functioning on the basis of capitalist criteria of production, the only difference being that the output generated and the wealth created will now accrue to the State rather than a handful of capitalists and the State can use it to promote our growth and social welfare. The process of production, I must repeat, remains capitalist, and as such is bound to suffer from the cancer of inflation.

Our concrete economic subservience to imperialism also adds to the inflationary spiral via the import of high priced essential inputs. This process has been further exacerbated by the energy crisis and the attempts by the imperialist powers to pass on the burden to us. Here again, given the present structure of our policies and the orientation of our planning, we are more or less helpless. Once again we are looking beyond our borders, though nearer this time, for the doses of capital we require for our economic growth.

There remains the agricultural sector—the backbone of our economy. The surplus generated within agriculture has been criminally wasted and a considerable part of it has been consumed away in luxury consumption, and no attempt has ever been made to tax this surplus. This is the natural outcome of the prevailing feudal relations of production and ensuing land tenure conditions. Current attempts to devise a policy for agricultural taxation emanating from a progressive stance are welcome. Meanwhile, smuggling, hoarding and other forms of anti-social speculation are seriously adding to the inflationary spiral. The economists usually give an exclamation of disgust and

conveniently announce that this is not their demand. Today, however, we have to face the raw facts of capitalist existence and tell everyone that smuggling, hoarding etc., and inflation are inseparable. We can go even further and state that feudalism and efficient economic organisation are diametrically opposed.

I have tried to show that the superficial explanations of current inflation get lost in the analysis of mere appearances. As a result the policy making mechanism is seriously handicapped and the essence of the problem remains as elusive as ever. It follows that the corrective measures adopted, though initially essential, ultimately only add to the problem, or at best, act as watchdogs of the lurking price explosion. Ironically, the solutions being suggested (e.g. a Prices and Incomes Policy and other remedies of the Stop-Go Variety) have been vigorously implemented by the "mixed economies" of the advanced capitalist countries, and as current events show, they have not been very successful, to say the least. Our policy making therefore, will have to discard the given theoretical perspectives and embark upon the course of defining our own concrete specificity.

The Devaluation of Pakistani Rupee, 1955-an Analytical Assessment*

*Dr. Muhammad Moqueem Sheikh***

Introduction

The main aim of this study is to assess the effects of the July 1955 devaluation of the rupee on prices and production in Pakistan. However a few lines on the significance of this study for the devaluation of the rupee in May, 1972, has also been added at the end.

An assessment of the effect of devaluation on prices and production encompasses the whole structure of the economy. Since an extensive study is not feasible under the present circumstances, therefore we have to be selective in examining the effect of the devaluation on prices and production in the various sectors of the economy of Pakistan.

Devaluation, an external phenomenon will first affect the prices and production of the export and import sector, then the internal sector, because of the interdependence between the external and internal sectors. But its effect on the internal sector is assumed to be less than that on the external sector, because of the existence of isolated subsectors within the domestic economy, e.g. banking and insurance, electricity, gas and services. Therefore, we shall discuss only agricultural and manufactured goods in the internal sector. Agriculture and manufacturing are the leading sectors for determining the

*This article is mainly based on the eleventh chapter of author's thesis entitled "The impact of Devaluation on Prices and Production in Pakistan" submitted to the University of Exeter, Exeter (England) for the degree of Ph.D. in 1972.

**The author is Assistant Professor of Economics, Government College, Lahore.

general price level in the economy¹. Another reason for selecting these two sectors is that about 95% of foreign exchange earnings was from exports of primary goods in the early 1950's. Even in the late 1960's about half of the foreign exchange earning came from agricultural products. However apart from food grains, imports have almost always been of manufactured goods.

In addition we shall examine the impact of devaluation on general prices in the country, G.N.P., balance of payments, and other aspects of the economy such as money supply, consumption, investment, and savings.

The impact of devaluation may be categorised as :

- (i) The initial or primary effect.....which is associated more or less with the effect of devaluation on relative prices.
- (ii) The reversal aggregate or secondary effect.....which is usually linked with the change in real income.

The initial or Primary Effect²

Prior to the 'Absorption Approach' expounded by Alexander, the impact of devaluation on the trade balance was given in the form of a partial equilibrium formula incorporating the price elasticities of aggregate supply and demand of exports and imports of the devaluing country and its trading partners. On the assumption of perfect competition, leading to elastic supply and balanced trade before the devaluation, the formula indicates that the devaluation will improve the balance of trade provided the sum of elasticities of demand for imports and supply of exports is absolutely greater than one. If the sum is less than one then the devaluation will not be helpful, when the elasticity of supply is quite low. In such a case, supply cannot be adjusted to increasing demand after the devaluation. Thus, where the elasticity of demand for imports is also low, the expenditure on imports will be greater than before in terms of local currency. Even in terms of foreign currency it will decrease insigni-

-
1. Agricultural goods are assigned weight of 58.9% and manufactured goods of 12.3% of all commodities included in the index of general prices.
 2. Alejandro Charles, F. Diaz "Exchange Rate Devaluation in a Semi-Industrial Country the experience of Argentina 1955-61. M.I.T. Press, 1966, pp. 1-4.

ificantly and the balance of trade will deteriorate. In the case where the elasticity of supply of exports is being zero, the devaluation may not result in an unfavourable balance of trade, it may leave the balance unchanged, provided the elasticity of demand for imports is low but positive. However, the improvement can be significant, if demand for imports is highly elastic.

Economists used the assumption of elastic supply in two goods models. This unnecessarily laid more stress on the importance of demand elasticities for exports and imports and ignored the domestic conditions underlying such elasticities. These two goods models were based on the assumption, that the country concerned specializes in one commodity, while it consumes two commodities. Such a notion did not allow the consideration of the income redistribution effect of devaluation. Furthermore such simple models assume constant costs and consequently constant prices of domestic goods are implicitly or explicitly, constant rewards to factors of production. Another consequence of the use of such models was their emphasis on the effect of devaluation on the terms of trade. Based on the assumption of perfect elasticity of supply, the terms of trade will deteriorate to the full extent of devaluation. But in the absence of any empirical link between the extent of devaluation and terms of trade deterioration, the extent of such a change in the terms of trade is an accidental by-product of devaluation. This fact was ignored by the two-goods models.

Because of this weakness, such two-goods models cannot be applied to a country which is too small to have its terms of trade affected significantly. Since it supplies an insignificant portion of the world trade and can be considered as a price-taker, such a country can supply a little more at the same price in the international market. But the terms of trade of such a country can be affected in terms of foreign exchange. That is why such a small country can also successfully use devaluation as a measure of correcting a deficit in the balance of payments. A large country is more certain to gain from the affected terms of trade in terms of foreign exchange.

Thus the two-goods model neglected domestic goods completely. Though their prices are not determined, by the exchange rate or other exogenous factors they are certainly affected by devaluation. Such an effect on the prices of domestic goods will lead to a reallocation

of resources after devaluation. The two-goods model with perfectly elastic supplies of exports and imports indicated only a restricted type of reallocation of resources, i.e. from unemployment to the production of exportables.

A small country with a perfectly elastic demand for its goods does not benefit from devaluation, it fails to re-allocate resources from the internal to the external sector for the production of exportables. Thus for analysing the total impact of devaluation on the economies of such countries, it is more useful to concentrate on supply elasticities of exportables and importables rather than on elasticities of foreign demand for exports and domestic demand for imports.

Reversal Aggregate or the Secondary Effects of Devaluation

Because of the devaluation, there will be change in the income and spending within the country. If we assume that any increase or decrease in income or spending is counter-balanced by fiscal or monetary policy, then there will be no secondary or reversal effects. In such a case the aggregate effect of the devaluation will be equal to the initial effect. But in the absence of such offsetting policies, there will surely be further repercussions of the primary effect in the country concerned.

Unless the sum of the elasticities is equal to one in simple models, total expenditure is bound to change positively or negatively as a result of the primary impact of the devaluation on the trade balance and a possible change in the terms of trade. Usually incomes and prices will go up. The initial reduction in unemployment will increase incomes, hence prices, because of a higher aggregate demand for goods and services. Such consequences will reduce some of the favourable primary effects of devaluation. Where the marginal propensity to import is high imports will increase rapidly and balances of payments will deteriorate and may result in a deficit.

The secondary or aggregate effects are also analysed chiefly by simple two-goods models based on perfect elasticities of supply. The reversal effect is of a rather more complex nature than the familiar income multiplier effect, which is usually based on marginal propensities to save and import (i.e. MPS and MPM) as its key parameters. The secondary or aggregate effects will be equal to the initial effect multiplied by the income multiplier in an open economy and not equal to the latter term only (i.e. multiplier only). The product of

the initial effect and the multiplier will indicate the increase in net boardings or net improvement in the balance of trade of the country.

Although we have tried to analyse the impact of devaluation on prices and production in Pakistan on the basis of the two-stage model discussed above, some of the assumptions underlying this model are not tenable in the case of Pakistan (i.e. perfect elasticities, constant costs etc.), because some of Pakistan's economic policies were in direct conflict with this policy of exchange rate variation. For example, development policy in the later half of 1950's was responsible for higher investment expenditure leading to an increase in absorption and an import surplus during this period. The easy money policy adopted by the authorities in the first two/three years of the devaluation period resulted in increased money supply, which not only added to the inflationary pressures emanating from the devaluation, but also decreased the chances of any fall in absorption. Thus such points must be considered while analysing the impact of devaluation on prices and production in Pakistan. With these points in mind, we discuss below the impact of devaluation of the rupee in 1955 on prices and production in different sectors of the economy of Pakistan.

A—The Agricultural Sector

For agriculture, major and minor crops are considered, Major crops include food and cash crops, which are further divided into fibre and 'other' crops.

Pakistan is predominantly an agricultural country and the production of food crops is the prime concern of both the agriculturalists and the Government. Because of its significance, the food sub-sector was bound to develop irrespective of the devaluation of the rupee in 1955. Thus it was assumed that the devaluation would have less effect on the prices and production of food crops.

This is supported by our findings. The prices of food crops increased by 6.4% as a result of the devaluation, during 1955-56 to 1958-59. This was about 29% of the total rise in these prices due to all factors including the devaluation, during the same period. Although this is significant, it is considerably less than its effect on the prices of fibre crops, or its effect in other sectors of the economy during the same period. The devaluation was responsible for an increase of 10.8% in the prices of fibre crops during this period,

while the prices of 'other' crops were least affected by the devaluation because of the domestic nature of their demand. The devaluation increased the prices of all agricultural goods by 3.9% in contrast to the total increase of 25.8% in these prices caused by all possible factors during the devaluation period. This means that only about 15% of the increase in the prices of agricultural products was contributed by the devaluation.

The devaluation affected production in this sector according to the changes which it brought in the prices of different crops. It is estimated to have contributed about 2.8%, 26.0% 17.5% and 10.3% of the total increases in the production of major crops, food crops, cash crops, and other crops respectively. While it was responsible for an increase of 0.7% out of total increase of 5.7% (i.e. 12.3% of the total) in the production of the whole of the agricultural sector.

However, the devaluation seems to have decreased production in the sub-sector of fibre crops. First, the devaluation contributed significantly to the rise in the prices of these crops, otherwise, were already quite high considerably. As a result of this rise in prices total demand decreased. Secondly, food prices increased during this period, despite the comparatively smaller effect on them of the devaluation. Because of the pre-occupation of agriculturists with food crops, preference was given to their production at the expense of fibre crops.

B—The Manufacturing Sector

The manufacturing sector has been divided into two categories : Large and small scale manufacturing. Because of many differences between these sub-sectors, the impact of devaluation on their prices and production was expected to be different.

As a part of the Government's development policy, substantial investment was made in the large scale manufacturing sector, Consequently, there was a considerable increase in the production during the devaluation period, which was responsible for the smaller increase in prices of manufactured goods in spite of the significant inflationary pressure in the economy at that time. Although prices in this sector were considerably lower and steadier than in other sectors, the devaluation affected these prices significantly, causing about 87% of the increase in such prices. It is estimated that devaluation increased

the prices of large scale manufactured goods by about 6.0% out of the total increase of 6.9% in the prices of these goods during the devaluation period.

On the other hand, the prices of small scale manufactured goods were expected to be least affected by the devaluation, because the products of this sub-sector were considered to be for domestic consumption rather than for export to other countries. However, as some imported inputs were used and because of the substitutability of many commodities being produced in large scale and small scale manufacturing, the prices of these commodities were also significantly affected by the devaluation. The prices of small scale manufactured goods also increased by 6.9% during the devaluation period of four years. The devaluation was responsible for an increase of 32% in these prices.

The prices of all manufactured goods are heavily influenced by prices of large scale manufactures. It is estimated that the devaluation increased the prices of all manufactures by 5.0% out of the total increase of 6.9% during the devaluation period, which is about 72.5% of the rise in these prices.

Similarly, it was estimated that devaluation also had an indirect effect on production in the large scale manufacturing sub-sector. Though its indirect influence on production in the small scale manufacturing sub-sector was also significant, it was considerably lower than its effect on the production of large scale manufactured goods. The effect of devaluation on the whole of manufactured sector was intermediate to the two sub-sectors. The devaluation increased the production of large scale manufactured goods by 13% out of the total increase of 32.5% in these goods (i.e. 40% of the total) during devaluation period. The increase caused by the devaluation in the production of small scale manufactured goods was only 1.3% out of the total increase of 10% in these goods (i.e. 13% of total) in the same period. The devaluation increased production in whole of the manufacturing sector by 27%, of the total increase during the 4 years. Though devaluation had a significant effect on the production of manufactured goods, this was lower compared to the effect on their prices during the devaluation period, because of the effect of other factors on production such as the Government Development Policy.

C—The External sector.

This sector will be considered in three parts i.e. prices, the quantum of exports and imports, and net and gross barter terms of trade. The effects of devaluation can be discussed accordingly.

A devaluation is generally supposed to increase the prices of exports³ and imports in terms of local currency. The prices of imported goods, in the short run, rise because importers have to pay more in local currency per unit of foreign exchange.⁴ The prices of Pakistani exports went up by 13.4% during the devaluation period. It is estimated that the devaluation increased the prices of these goods by 4.0% during this period, or about 30% of the total increase. On the other hand, the devaluation is estimated to have increased the prices of imports by 18.6% out of the total increase of 19.8% during the period of four years. This indicates that more than 90% of the rise in the prices of imported goods was due to the devaluation alone.

Factors other than devaluation had an effect on export prices during the devaluation period e.g. rigidities in supply of exports. The devaluation itself appeared to have a lesser effect on exports. This is because we are considering the rupee prices of imports and exports. In terms of foreign currency prices of these goods, the prices of imports remained unaffected by the devaluation, while the prices of exports decreased.

The quantum or volume of exports is generally expected to increase with the devaluation of the currency because of a higher demand from abroad. It is expected that the demand for imports will fall after the rise in rupee prices, reducing the quantum of imports.

However, these expectations were not fulfilled. The quantum of exports increased and that of imports decreased in the first year of the devaluation period, i.e. in 1955-56. Thus the initial impact was as expected. But opposing trends soon appeared and the devaluation

-
3. This will be due to the higher expected demand from abroad and the lower elasticity of supply of primary products within the country.
 4. The prices of imports are assumed to be the same in terms of foreign exchange after the devaluation.

is estimated to have decreased the total quantum of exports as well as quantum on private account, by 3.8% and 4.7% out of their total decreases of 57.9% and 73.2% respectively, during the devaluation period.

On the other hand, the total quantum of imports increased by 9.5% during this period. Out of this increase in four year, 3.2% was contributed by the devaluation alone. This exceptional result seems to be due to the fact that the imports (at least on total account) became income-elastic rather than price elastic. However the quantum of imports on private account fell by 51.2% in the devaluation period, the devaluation decreased this quantum by 20.4%. This was the expected trend, not because of the devaluation but because of various restrictions on imports.

- Devaluation usually leads to a deterioration of the net barter terms of trade of the devaluing country, and improves its gross barter terms of trade. However, sometimes the reverse occurs. Although the latter type of results are considered to be the exception rather than the rule, this happened in the case of Pakistan's terms of trade after the devaluation of the rupee in 1955.

The net barter terms of trade deteriorated in the first two years, while the gross barter terms of trade improved in the first year, but the reverse trends ensued in both cases for the other years of the devaluation period. Even then the average index of the net barter terms of trade was below normal i.e. 81.9, during the devaluation period, compared with 100 in 1954-55. Still it is estimated that the devaluation improved the net barter terms of trade by about 7.3% during this period; otherwise there would have been greater deterioration and the average index would have been much lower.

On the other hand, the average index of the gross barter terms of trade was 87.0 during the whole of the devaluation period. (100 for 1954-55). This means that the devaluation did not improve the gross barter terms of trade on total account as had been expected. However, only the gross barter terms of trade on private account improved due to a considerable fall in the quantum of imports, with a small fall in the quantum of exports on private account.

D—General Prices and G.N.P.

During the devaluation period general prices in the country rose at the rate of 8.0% per annum. In other words, the total

increase in the price level was to the extent of 36.0% during the devaluation period of four years. The devaluation is estimated to have led to a 22.8% increase in the prices level. This is considerable by any standard.

Actually the prices of agricultural goods were assigned the highest weight in the index of general prices. Since the devaluation inflated prices in the agricultural sector less than those in other sectors of the economy, the contribution of the devaluation to the rise in general prices should have been less than its contribution to the rise in prices in other sectors of the economy. On the contrary, it was found to be higher than such ratios in many other sectors of the economy.

The extent of increase in general prices caused by the devaluation appears unjustified according to the argument above, yet it is plausible in view of the circumstances at that time. On the one hand, the Government caused an increase in money supply during the First Five Year Plan period i.e. from 1955-56 to 1959-60.⁵ On the other hand, the devaluation added considerably to the rise in other sectors, especially in the prices of manufactured and imported goods. Prices in these sectors exerted more pressure on the general price level. The income multiplier and accelerator inflated the effect of the devaluation on general prices. Thus it is not surprising that the impact of devaluation on the general price level in Pakistan was substantial.

However, G.N.P. was least influenced by devaluation during the same period. It is estimated that devaluation increased the G.N.P. at constant prices, (i.e. general production), by 0.5% out of the total increase of 10.4% during this period. This means that only 5% of the rise in the G.N.P. during this period was contributed by the devaluation. Though G.N.P. is dependent on investment, which, in turn, depends to a large extent on different sets of prices, if the Government adopts a planned policy for investment, G.N.P. will rise irrespective of prices after the devaluation. Thus the effect of devaluation on G.N.P. was limited.

E—The Balance of Payments of Pakistan

We estimated the effect of the devaluation on the values of exports and imports separately, and combined these two effects in

5. Even the devaluation contributed significantly to this rise during the devaluation period.

order to find the total impact on the balance of payments of Pakistan during the devaluation period.

Devaluation is resorted to because it is expected to correct the deficit in the balance of payments of the country. The success of this measure depends on supply and demand elasticities of exports and imports. Normally, if the sum of these elasticities is greater than one, then devaluation is expected to eliminate the deficit in the balance of payments.

Pakistan devalued the rupee with 1955 in the hope of correcting the deficit in the balance of payments in this manner. Our results show that this expectation was not justified. This was because the elasticities of supply and demand for exports were less than unity. Although the elasticity of supply of exports are normally low in the short run,⁶ it is expected that the elasticity of demand from abroad for exports will be greater than one. However, for Pakistan, the elasticities of the supply of and demand for exports (i.e. quantum) were found to be 0.50 and 0.35 respectively, for the whole period. Because of these low elasticities, the quantum of exports (and thus the value of exports did not increase during the devaluation period.)

Not only were the elasticities of supply of and demand for exports lower than unity, but the elasticity of demand for imports was also lower than unity (0.92). Moreover imports became income-elastic, because of the heavy investment undertaken by the government in the First Five Year Plan period. This increased the demand for imports irrespective of changes in import prices. Thus the value of imports increased more than any favourable change which may have taken place in the first two years of this period in the value of exports.

Secondly, though Pakistan's terms of trade deteriorated in the first two years there was a significant improvement in the last two years of the devaluation period. This implies that the prices of exports either increased faster or decreased more slowly than the increase or decrease in the prices of imports during this period. As a result of a higher increase in the prices of exports (generally prices both of exports and imports increased), the demand for exports would be expected to decrease to some extent. This seems to have happened in spite of the low elasticity of demand for Pakistan's exports. In such a case the elasticity is usually low (when prices are decreasing),

6. Myrdal (1968), *Asian Drama* (Penguin) 1968 Vol. I, P. 610.

but can be somewhat higher (than this coefficient) in the case of rising prices. This is provided the product is not an essential commodity and its import from the devaluing country is not absolutely necessary for the importing country.

On the other hand, the elasticity of demand for imports was nearly equal to unity. Moreover these imports became income-elastic, while their prices increased less, or decreased more, than proportionate changes in the prices of exports. Thus the demand for imports increased significantly during the devaluation period.

In addition, devaluation is supposed to benefit the exporter of traditional exports more than the non-traditional exports produced by sophisticated techniques. However, it has been found that the devaluation had the opposite effect. Exports of traditional goods fell significantly either because of the lower elasticity of supply, as in the case of raw jute, or because there were substitutes and a lower elasticity of demand, as in the case of cotton or because of greater domestic consumption of all those exportables.

Although the exports of manufactured goods, especially of jute and cotton goods, increased substantially during this period, these exports did not compensate for the loss of earnings from the traditional exports. On the other hand, the production of these non-traditional exports require imported inputs, e.g. machinery, equipment etc., thus increasing the import bill of the country.

We have seen that the prices of exports were higher in terms of local currency but lower in terms of foreign currency compared with prices in the pre-devaluation period. This phenomenon should have helped to increase the demand for Pakistan's exports abroad as well as increasing supply in Pakistan; but as both the elasticities, i.e. of supply of and demand for exports, were considerably lower than unity, the value of exports in terms of foreign currency was lower than in the pre-devaluation period.

On the other hand, prices of imports were steadily increasing during the devaluation period. Pakistan had to import more for the purpose of development. Thus her import bill increased substantially in 1956-57 and 1957-58, and the devaluation did not affect imports substantially.

Though the sum of the elasticities of supply of exports and demand for imports was greater than one ($0.30 + 0.92$), the devalua-

tion did not wipe out the deficit in the balance of payments of the country. Perhaps this was because the elasticity of supply of imports (for Pakistan) from other countries of the world was an indeterminate factor in our equation of external trade, and the effect of devaluation on the balance of payments of Pakistan was not fully shown by the elasticity approach.

However, the absorption approach proved to be quite helpful in this case. We have estimated that the devaluation has increased absorption more than it has increased G.N.P. during the devaluation period. Therefore the devaluation has been responsible for further deterioration in the balance of payments of Pakistan and the deficit could not be wiped out during this period of four years. The value of exports decreased by \$15.7 million during the devaluation period, while the value of imports increased by \$29.6 million during the same period. Therefore, it has been estimated that the devaluation further deteriorated the balance of payments of Pakistan by \$45.3 million during the devaluation period.⁷

F—Other Aspects of the Economy of Pakistan

Devaluation is a monetary phenomenon, and is expected to bring a change in the money supply of the devaluing country. Although there were other powerful causative factors (e.g. the development policy) for the increase in money supply in the country at that time, it is estimated that the devaluation has also increased the money supply by 5.7% out of the total increase of 31.6% (i.e. 18% of the total) during the devaluation period.

Similarly, devaluation is expected to initiate the process of the reallocation of resources in the devaluing country, by changing prices of goods and services in the various sectors especially in the external sector, of the economy. This holds good, if the economy is at full, or near-full, employment. However, a reallocation of resources can also take place even if there are unemployed resources in the country. In this case, resources will be allocated to the external or more profitable

7. However the value of exports in terms of rupees was increased by Rs. 51.4 million, and the value of imports by Rs. 97.9 million, by the devaluation during the devaluation period. Thus the devaluation deteriorated the balance of payments of Pakistan by Rs. 46.5 million (i.e. in Pakistani currency also) during this period of four years.

sector of the economy, at the expense of the other sectors.

This reallocation entails a redistribution of the National Income from the non-savers and the non-investing class to the savers and investing class of the economy. In an underdeveloped country like Pakistan, the wage earners are assumed to be the non-savers and non-investing class. Only industrialists and business groups, apart from the Government, are expected to save and invest in the economy. In the short run, entrepreneurs and rentiers are the first beneficiaries of the expected rise in the prices and profits after the devaluation, and wages lag behind.

Although we were unable to estimate the extent of such a redistribution of income because of the lack of relevant data, there is strong evidence that real wages not only lagged behind, but actually decreased in the devaluation period, compared to their pre-devaluation level. On the other hand, profits (including interest) increased significantly during this period. Therefore the position of wage-earners deteriorated because of the devaluation.

We also used the absorption approach to examine the effect of the devaluation on the balance of payments of Pakistan, and estimated the secondary and aggregate effect of the devaluation on the real income of the country. For this, we estimated the devaluation effect on consumption and investment by the weighted elasticity technique. The devaluation not only increased consumption and absorption, but also decreased investment. Thus the effect of the devaluation on absorption and its components was perverse. Our findings are explained by increasing input costs (especially of imported inputs) in the case of investment; and consumption and absorption were greater in terms of current inflated prices than in real terms. By the absorption approach, we have also confirmed that the devaluation had an adverse effect on the balance of payments of Pakistan.

The aggregate effect of the devaluation on G.N.P. at constant prices (i.e. real income) was considerable during the devaluation period. This was because of a high income-multiplier (4.35). Thus the devaluation contributed positively to the real income (here, the G.N.P. on constant prices), in Pakistan.

Although changes in fiscal policy seem to have strengthened the effect of devaluation to a certain extent, the changes in commercial

policy were less helpful to the devaluation in achieving its desired effect on the balance of payments. Perhaps the commercial policy was based more on Pakistan's development policy than on the exchange rate policy.

Conclusions.

The rupee was devalued with two ends in view, to boost exports and reduce imports thus bringing the balance of payments into equilibrium, and to increase the returns to the primary producers in order to increase the production of the traditional goods. We have tried to know how far the devaluation was successful in achieving these ends.

We shall deal with the second aim first. The prices of primary goods or the traditional exportables were low in the pre-devaluation periods, resulting in low production. Although the devaluation does not seem to have increased the price of fibre crops in the first two years, it appears to have worked as a great incentive (because higher prices were expected) to increase the production of these crops.⁸ However, in the latter two years of the devaluation period, the prices of these crops were significantly higher than in the base period. This indicates that the returns to the primary producers increased in the latter part of the devaluation period. Combined with a general inflationary pressure⁹ in the country after the devaluation, the prices in the agricultural sector increased, faster than prices of manufactured goods turning the terms of trade between agricultural and manufactured goods significantly in favour of the agricultural sector¹⁰. According to this study the relative prices of agricultural goods (i.e. the prices of the goods the agricultural sector sells in relation to the prices of non-agricultural goods it buys) increased by 60% and 30% in East Pakistan and West Pakistan respectively, between the late 1950's and the early 1960's¹¹. Though this study goes beyond the devaluation period and (thus) includes the effect of the depreciation of the rupee in 1959, it testifies that the prices in the agricultural sector were significantly higher than the prices in other sectors of

-
8. Perhaps the substantial increase in the production of these crops resulted in a significant decrease in their prices, subsequently.
 9. To which the devaluation also contributed substantially.
 10. Lewis, S.R. and Hussain, S.M. (1965), pp. 408-31.
 11. *Ibid*, p. 424.

economy in the latter period of 1950's. Hence we can say that the devaluation was successful in increasing the return to the primary producers.

Despite the failure of the devaluation to boost traditional exports and reduce imports, and thus wipe out the deficit in the balance of payments, there is consolation in that it did help to increase the exports of non-traditional exports, i.e. manufactured goods. Not only did the value of these exports increase substantially during the devaluation period, but their ratio, especially that of jute and cotton goods, to total export earnings also increased from 2% in 1954-55 to about 15% in 1958-59. Thus it can be said that this part, at least, of the Government's aspirations about the devaluation was fulfilled.

Significance of the study for the New Devaluation of the Rupee in 1972.

So far we have discussed the impact of devaluation of the rupee in 1955 on the prices and production in Pakistan. The significance of such a study for the new devaluation of the rupee in 1972 is evident. Therefore a few lines in this regard are also in order here. However it may be noted here that no specific results, like that of 1955 devaluation, are aimed at. Because such a purpose requires a detailed analysis of the impact of devaluation after May, 1972. As the period after the devaluation will be very short, for which the data will be available, it will not be a worthwhile exercise at this stage. Therefore we shall show the significance of such a study by comparing the perspectives and the various features of both the devaluations.

The Perspectives.

Before the first devaluation of the rupee in 1955, Pakistan's economy was predominantly agricultural one. We needed imports of consumers as well as capital goods for domestic consumption and for industrial development in the country. Furthermore the Korean Boom helped the country a lot in earning substantial foreign exchange in 1951. But these circumstances changed by 1955. Because of the collapse of the Korean Boom, the prices of major Pakistani exports i.e. jute and cotton, were falling rapidly and so were the returns to the growers of these products. While our exports earnings were at the lowest ebb in 1953-54, and we were incurring continuous deficits in the balance of payments of the country.

Under these conditions, the rupee was devalued in 1955, with the specific purposes of correcting the deficit in the balance of payments

and increasing the returns to the growers of major exportables, i.e. jute and cotton producers.

We have seen that the devaluation of the rupee in 1955 could not wipe out the deficit in the balance of payments of Pakistan, except in the very first year of the devaluation period i.e. 1955-56. However the devaluation achieved the second objective of increasing the returns to the growers of these exportables.

In spite of the devaluation of the rupee in 1955 and export bonus scheme in 1959, export earnings remained below the value of imports. Therefore the growing deficits in the balance of payments could not be wiped out. The burden of the foreign debt increased substantially. Growth rate of the economy fell sharply in 1971-72, because of the war with India, delinking of East Pakistan and political instability in the country. Moreover the multiple exchange rate system practised under bonus scheme became cumbersome mechanism for a developing country like that of Pakistan. That is why the International Monetary Fund impressed upon Pakistani authorities to devalue the rupee substantially before any further help is given for the purpose of development and debt servicing. Therefore Pakistan devalued the rupee by 56.7% on May 11, 1972.

We would like to compare the results of the impact of devaluation of 1955 on prices and production in Pakistan and expected or visible effect of the present devaluation on the economy of Pakistan. However we shall review the impact of the devaluation only on three aspects of the economy viz general prices, balance of payments and redistribution of the national income in Pakistan.

General Prices.

We have seen that the devaluation in 1955 contributed substantially to the increase in prices, which were rising at the rate of 8% per annum during the devaluation period i.e. from 1955-56 to 1958-59. While we can observe that the general price index has risen by 18.8% from April, 1972 to April, 1973 over 1971-72 and by 26.5% between July, 1973 and March, 1974 over 1972-73.¹² The prices of many articles of daily use have increased much more than this average index, during this period. Even this average rise in general prices¹³ is substantial by any standard.

12. Pakistan Economic Survey (1973-74), p. (xv)

This price hike is mainly attributed to the increased liquidity in the economy stemming from large monetary expansion, the rupee devaluation, significant increase in developmental expenditure, rise in farm incomes due to higher support prices. On the basis of these facts, it can be construed that the devaluation would have contributed insignificantly to the inflationary pressure in the country.

However a deeper study will reflect that the devaluation would have been responsible for a significant increase in monetary expansion based on the expanded foreign exchange reserves (in rupee terms) after the devaluation. In addition to this expansion in the money supply due to the rise in foreign exchange reserves, the huge deficit financing in the two post-devaluation budgets has also increased the money supply substantially. At least a part of the deficit financing and development expenditure would have been necessitated by the increase in prices of various goods and services due to the devaluation. Hence the present devaluation also seems to have increased the money supply substantially and looks to have contributed significantly to the price hike in the country.

Balance of Payments.

The present devaluation of the rupee was also decided for correcting the deficit in the balance of payments of the country. On the basis of the scanty data available in this connection, we can say easily that the export earnings have increased substantially over the pre-devaluation period i.e. before 1972. No doubt this is a favourable and expected effect of the devaluation, but the deficit in the balance of payments of Pakistan could not be wiped out because of the import liberalisation policy of the Government. Moreover, the peak level of export earnings was made possible by exporting more than double the commodities being exported before the present devaluation. This seems to have exhausted some of our resources; while there is general scarcity of all the goods and services in the country. This factor has also contributed significantly to the price rise in Pakistan.

Redistribution of the National Dividend.

Although the major part of the redistribution of the national income (or dividend) is due to the socialistic policies of the Government. Nevertheless some part of the change is being brought about by the impact of devaluation on prices and production in Pakistan. The external sector is always expected to be benefited more than the

internal sector by the devaluation of the currency in a country. Because the devaluation would have increased the demand for exportables of the devaluing country. The elasticity of supply of these goods is usually low in the short run. This would have increased the prices of these exportables and thus would have increased the profits of producers of these goods. Therefore the resources would have been transferred from the internal sector to the external sector and so had been the redistribution of the national dividend in favour of the producers of these exportables.

As Pakistan's economy is still predominantly agricultural one and so are the major exports from this sector, therefore it can be concluded that the devaluation would have redistributed some of the national dividend in favour of the agriculturalists. This redistribution would have increased the private investment in this sector. That is why the growth rate in the agricultural sector had been 3.8% in 1972-73, and about 5% in 1973-74,¹³ while the industrial production increased by 12.0% and 7% during the same two years respectively. Though these rates are higher than such growth rates in the previous year i.e. 1971-72, yet the growth rate in industry is quite lower than its rate in the later half of 1960's. However it is difficult to say that which sector i.e. agriculture or industry, is the main beneficiary without further study in this connection.

Thus we can conclude that both the devaluations have many common features with respect to their impact on the prices and production in Pakistan. Although their magnitude had been different and so had been their effect on some of the sub-sectors of the economy. Nevertheless the effect of 1972 devaluation on various facets of the economy would have been similar to the impact of the previous devaluation on prices and production in Pakistan. Thus the impact of the present devaluation can also be estimated on similar lines, provided sufficient data are available for this purpose.

13. Ibid p (viii)

SELECTED BIBLIOGRAPHY

Books and Articles.

1. *Alejandro, Carlos F. Diaz*
 "Exchange Rate Devaluation in a Semi-Industrial Country—the Experience of Argentina, 1955-61", 1965 (Massachusetts, the M.I.T. Press).
2. *Alexander, S.S.*
 "Effects of Devaluation, A simplified synthesis of Elasticities and Absorption Approaches" (American Economic Review, Vol. XLIX, No. 1, April, 1952, pp. 22-42).
3. *Andrus, Russel J. and Mohammad, Azizul F.*
 "The Economy of Pakistan", 1958 (London: Oxford University Press).
4. *Harberger, A.C.*
 "Currency Depreciation, Income and the Balance of Payments" (Journal of Political Economy Vol: 58, February, 1950).
5. *Islam, Nurul*
 "A short-Term Model for Pakistan Economy—An Econometric Analysis", 1965 (London: Oxford University Press).
6. *Kindleberger, C.P.*
 "International Economics, 1968 (4th ed. Homewood, Ill. R.D. Irwin, Inc.)
7. *Lewis, Stephen R. (Jr.) and Hussain, S. Mushiq*
 "Relative Price Changes and Industrialisation in Pakistan: 1951-64" (Pakistan Development Review, Autumn, 1966).
8. *Meenal S.A.*
 "Money and Banking in Pakistan", 1966. (Karachi: The Allies Book Corporation).
9. *Myrdal, Gunnar.*
 "Asian Drama—An Enquiry into the Poverty of Nations", 1968 (Penguin Books Ltd. Harmondworth, Middlesex, England).

10. *Viner Jacob* "Studies of the Theory of International Trade", 1937 (New York: Hamper).

Official and Semi-Official Publications.

11. *Central Statistical Office, Government of Pakistan* "20 years of Pakistan in Statistics" 1947-67, March, 1968 (Karachi).
12. " " " "Pakistan Statistical Year Book, 1968" 1970 (Karachi).
13. " " " "Pakistan Key Economic Indicators",
14. " " " "Monthly Statistical Bulletins"
15. *Food and Agricultural Organisation.* "Production Year Books and Trade Year Books", (Rome.).
16. *Pakistan Institute of Development Economics* "A Measure of Inflation in Pakistan 1951-60" (Monograph No. 4, Karachi).
17. *Pakistan, Government of, Planning Commission.* "The Second Five Year Plan, 1960-65", June, 1960 (Karachi).
18. *United Nations.* "Monthly Statistical Bulletins"
19. " " " "Statistical Year Books".
-

17